YEAR ENDING RECEIVED

ANNUAL REPORT OF

209 MY -4 P 12: 10 PUBLIC SERVICE COMMISSION

SOUTHERN MONTANA TELEPhone Co.

TELEPHONE UTILITY



TO THE PUBLIC SERVICE COMMISSION STATE OF MONTANA 1701 PROSPECT AVENUE P.O. BOX 202601 HELENA, MT 59620-2601

Company Name: So SCHEDULE 1

Year: 2008

General Information

Legal Name of Respondent: Southern Montana Telephone Company Name Under Which Respondent Does Business: Southern Montana Telephone Company Date of Incorporation: 1944 Address to send Correspondence Concerning Report: P.O. Box 205 Wisdom MT 59761-Person Responsible for This Report: Rick Knight, Office Manager Telephone Number: 406-689-3333 Control Over Respondent If direct control over the respondent was held by another entity at the end of year provide the following: la. Name and address of the controlling organization or person: 1b. Means by which control was held: 1c. Percent Ownership:

| | | Board of Directors | |
|---------------------------------|-------------------------|---|-----------------------|
| Line No. | | Name of Director and Address (City, State) | Fees Paid During Year |
| μνυ. | | (a) | (b) |
| 1 | Robert G. Helming | Wisdom, MT | 9000 |
| 2 | Tara E. Helming | Wisdom, MT | 9000 |
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| 16 17 | | | |
| 17 18 | Chairman of the Board: | Dobout C. Holming | |
| 19 | Liminimi of the Douter. | Robert G. Helming | ļ |
| 20 | | | |
| 20 | | | |

| Line No. of Officer (a) Department Over Which Jurisdiction is Exercised (b) Holding Office at Year End (c) 1 President (a) All Departments Robert G. Helming Wisdom MT 59761 5 Secretary/Treasurer All Departments Tara E. Helming Wisdom, MT 59761 11 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 | | Officers Year: 20 | | | | | | | | |
|---|------|-----------------------|-----------------|----------------------------|--|--|--|--|--|--|
| No. (a) (b) (c) (c) | Line | | | | | | | | | |
| (a) (b) (c) | | of Officer | | Holding Office at Year End | | | | | | |
| 2 Wisdom MT 59761 | | (a) | | | | | | | | |
| 3 4 5 5 5 5 5 5 5 5 5 | | President | All Departments | | | | | | | |
| All Departments Tara E. Helming Wisdom, MT 59761 | | | | Wisdom MT 59761 | | | | | | |
| Secretary/Treasurer | | | | | | | | | | |
| Wisdom, MT 59761 | | la , m | | | | | | | | |
| 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 | | Secretary/ reasurer | All Departments | | | | | | | |
| 8 9 10 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 29 30 31 32 33 34 35 36 37 38 39 40 41 42 42 43 | | | | Wisgom, M1 59/61 | | | | | | |
| 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 29 30 31 32 23 24 25 26 27 28 29 30 31 32 33 34 35 35 36 37 38 39 40 41 41 42 43 | | | | | | | | | | |
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| 12 | | | | | | | | | | |
| 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 31 32 33 34 35 36 37 38 39 40 41 41 42 43 | | | 1 | | | | | | | |
| 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 | | | i i | | | | | | | |
| 15 | | | | | | | | | | |
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| 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 | | | | | | | | | | |
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| 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 | | | | | | | | | | |
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| 32 33 34 35 36 37 38 39 40 41 42 43 | | | | | | | | | | |
| 33 34 35 36 37 38 39 40 41 42 43 | 31 | | | | | | | | | |
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Total Company Balance Sheet

| | | | Total Company Balance Sheet | | Year: 2008 |
|------|----------|-------|---|--------------------|---------------|
| Line | | Acct. | | This | Last |
| No. | | No. | Description | Year | Year |
| 140. | | (a) | (b) | (c) | (d) |
| 1 | | | CURRENT ASSETS: | | |
| 2 | | 1120 | Cash and Equivalents | See Attached AUDIT | ED Financials |
| 3 | İ | 1180 | Telecommunications Accounts Receivable - Net | | |
| 4 | | 1190 | Other Accounts Receivable - Net | | |
| 5 | | 1200 | Notes Receivable - Net | | |
| 6 | | 1210 | Interest and Dividends Receivable | | |
| 7 | | 1220 | Materials and Supplies | | |
| 8 | * | 1280 | Prepayments | | |
| 9 | ^ | 1290 | Prepaid Rents | | |
| 10 | ^ | 1300 | Prepaid Taxes | | |
| 11 | ^ | 1310 | Prepaid Insurance | | |
| 12 | ^ | 1320 | Prepaid Directory Expenses | | |
| 13 | Λ | 1330 | Other Prepayments | | |
| 14 | | 1350 | | | |
| 15 | | | Total Current Assets | | |
| 16 | | | NONCURRENT ASSETS: | | |
| 17 | | 1401 | Investments in Affiliated Companies | | |
| 18 | | 1402 | Investments in Nonaffiliated Companies | | |
| 19 | ı | 1406 | Nonregulated Investments | | |
| 20 | İ | 1407 | Unamortized Debt Issuance Expense | | |
| 21 | - 1 | 1408 | Sinking Funds | | |
| 22 | | 1410 | Other Noncurrent Assets | | |
| 23 | Ì | 1438 | Deferred Maintenance and Retirements | | |
| 24 | | 1439 | Deferred Charges | | |
| 25 | | 1500 | Other Jurisdictional Assets - Net | | |
| 26 | \Box | | Total Noncurrent Assets | | |
| 27 | | | PROPERTY, PLANT, & EQUIPMENT: | · | |
| 28 | ı | 2001 | Telecommunications Plant in Service | | |
| 29 | | 2002 | Property Held for Future Telecommunications Use | | |
| 30 | | 2003 | Plant Under Construction - Short Term | | |
| 31 | | 2004 | Plant Under Construction - Long Term | | |
| 32 | | 2005 | Telecommunications Plant Adjustment | | |
| 33 | | 2006 | Nonoperating Plant | | |
| 34 | - | 2007 | Goodwill | | |
| 35 | | 3100 | Accumulated Depreciation | | |
| 36 | | 3200 | Accumulated Depreciation - Held for Future Use | | |
| 37 | | 3300 | Accumulated Depreciation - Nonoperating | | |
| 38 | \dashv | 3400 | Accumulated Amortization | | 18111 |
| 39 | | | Net Property, Plant, & Equipment | | |
| | | | | | |
| 40 | | | TOTAL ASSETS | | |

[^] Subaccount of account marked with a *.

SOUTHERN MONTANA TELEPHONE COMPANY

Balance Sheets

December 31, 2008 and 2007

| ASSETS | | 2008 | _ | 2007 |
|---|----|--------------------|----------------------|--------------------|
| Current Assets: | | | | |
| Cash and cash equivalents | \$ | 1,806,514 | \$ | 1,889,500 |
| Marketable securities | | - | | 40,000 |
| Accounts receivable, less allowance for doubtful | | | | |
| accounts of \$16,057 (\$20,266 in 2007) | | 283,129 | | 363,755 |
| Materials and supplies | | 63,625 | | 63,538 |
| Prepaid expenses | _ | 28,048 | _ | 4,900 |
| Total Current Assets | _ | 2,181,316 | | 2,361,693 |
| Other investments | | 352,501 | | 351,067 |
| Property, Plant, and Equipment: | | | | |
| In-service | | 12,475,685 | | 11,180,52 4 |
| Under construction | _ | 2,013,665 | _ | 367,366 |
| | | 14,489,350 | | 11,547,890 |
| Less accumulated depreciation | | 6,642,614 | | 5,971,996 |
| Property, Plant, and Equipment, net | - | 7,846,736 | - | 5,575,894 |
| | \$ | 10,380,553 | - \$ | 8,288,654 |
| | ΨΞ | 10,000,000 | Ψ= | 0,200,004 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Current portion of long-term debt | \$ | 282,221 | \$ | 304,936 |
| Accounts payable | | 68,662 | | 129,539 |
| Advance billing and customer deposits | | 16,076 | | 27,663 |
| Accrued expenses | _ | 388,253 | _ | 192,833 |
| Total Current Liabilities | - | 755,212 | _ | 654,971 |
| Long-Term Debt | _ | 5,945,186 | - | 3,738,976 |
| Stockholders' Equity: | | | | |
| Common stock, \$10 par value, 2,703 shares authorized and | | | | |
| | | | | |
| 610 shares issued and outstanding | | 6,100 | | 6,100 |
| | | 6,100 3,290 | | 6,100 3,290 |
| 610 shares issued and outstanding | | • | - | |
| 610 shares issued and outstanding Paid-in capital | - | 3,290 | - | 3,290 |
| 610 shares issued and outstanding Paid-in capital Retained earnings | \$ | 3,290 3,670,765 | - \$ ₌ | 3,290 3,885,317 |

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| Line | Acct. | | , | |
|-------|-------|--|------|------|
| rme l | | | This | Last |
| No. | No. | Description | Year | Year |
| 190. | (a) | (b) | (c) | (d) |
| 41 | | CURRENT LIABILITIES: | | |
| 42 | 4010 | Accounts Payable | | |
| 43 | 4020 | Notes Payable | | |
| 44 | 4030 | Advance Billing and Payments | | |
| 45 | 4040 | Customer Deposits | | |
| 46 | 4050 | Current Maturities - Long Term Debt | | |
| 47 | 4060 | Current Maturities - Capital Leases | | |
| 48 | 4070 | Income Taxes - Accrued | | |
| 49 | 4080 | Other Taxes - Accrued | | |
| 50 | 4100 | Net Current Deferred Operating Income Taxes | | |
| 51 | 4110 | Net Current Deferred Nonoperating Income Taxes | | |
| 52 | 4120 | Other Accrued Liabilities | | |
| 53 | 4130 | Other Current Liabilities | | |
| 54 | | Total Current Liabilities | | |
| 55 | | LONG-TERM DEBT: | | |
| 56 | 4210 | Funded Debt | | |
| 57 | 4220 | Premium on Long-Term Debt | | |
| 58 | 4230 | Discount on Long-Term Debt | | |
| 59 | 4240 | Reacquired Debt | | |
| 60 | 4250 | Obligations Under Capital leases | | |
| 61 | 4260 | Advances From Affiliated Companies | | |
| 62 | 4270 | Other Long-Term Debt | | |
| 63 | | Total Long-Term Debt | | • |
| 64 | | OTHER LIABILITIES AND DEFERRED CREDITS: | | |
| 65 | 4310 | Other Long-Term Liabilities | | |
| 66 | 4320 | Unamort. Oper. Invest. Tax Credits - Net | | |
| 67 | 4330 | Unamort. Nonoper. Invest. Tax Credits - Net | | |
| 68 | 4340 | Net Noncurrent Deferred Oper. Income Taxes | | |
| 69 | 4350 | Net Noncurrent Deferred Nonoper. Income Taxes | | |
| 70 | 4360 | Other Deferred Credits | | |
| 71 | 4370 | Other Jurisdictional Liab. and Def. Credits | | |
| 72 | | Total Other Liabilities and Deferred Credits | | |
| 73 | 1 1 | STOCKHOLDERS' EQUITY: | | |
| 74 | 4510 | Capital Stock | | |
| 75 | 4520 | Additional Paid-In Capital | | |
| 76 | 4530 | Treasury Stock | | |
| 77 | 4540 | Other Capital | | |
| 78 | 4550 | Retained Earnings | | |
| 79 | | Total Stockholders' Equity | | |
| 80 | | TOTAL LIAB. AND STOCKHOLDERS' EQUITY | , | |

SOUTHERN MONTANA TELEPHONE COMPANY

Balance Sheets

December 31, 2008 and 2007

| Current Assets: \$ 1,806,514 \$ 1,889,500 Cash and cash equivalents \$ 40,000 Marketable securities 40,000 Accounts receivable, less allowance for doubtful accounts of \$18,057 (\$20,266 in 2007) 283,129 363,755 Materials and supplies 63,625 63,538 Prepaid expenses 28,048 4,900 Total Current Assets 2,181,316 2,381,693 Other investments 352,501 351,067 Property, Plant, and Equipment: 12,475,685 11,180,524 Under construction 2,013,665 367,369 Less accumulated depreciation 6,642,614 5,971,996 Property, Plant, and Equipment, net 7,846,736 5,575,894 Property, Plant, and Equipment net 2,82,221 304,936 Accounts payable 8,862 129,539 Accounts payable 8,862 129,539 Advance billing and customer deposits 16,076 27,663 Advance billing and customer deposits 3,83,253 192,839 Total Current Liabilities 5,945,186 3,738,976 < | ASSETS | _ | 2008 | | 2007 |
|---|--|------|------------|------|------------|
| Marketable securities 40,000 Accounts receivable, less allowance for doubtful accounts of \$16,057 (\$20,266 in 2007) 283,129 363,755 Materials and supplies 63,625 63,538 Prepaid expenses 28,048 4,900 Total Current Assets 2,181,316 2,381,693 Other investments 352,501 351,067 Property, Plant, and Equipment: 12,475,685 11,180,524 Under construction 2,013,665 367,366 Less accumulated depreciation 2,013,665 367,366 Property, Plant, and Equipment, net 7,846,736 5,575,894 Property, Plant, and Equipment | Current Assets: | | | | |
| Accounts receivable, less allowance for doubtful accounts of \$16,057 (\$20,266 in 2007) 283,129 363,755 Materials and supplies 63,625 63,538 Prepaid expenses 28,048 4,900 Total Current Assets 2,181,316 2,361,693 Other investments 352,501 351,067 Property, Plant, and Equipment: In-service 12,475,685 11,180,524 Under construction 2,013,665 367,366 Less accumulated depreciation 6,642,614 5,971,996 Property, Plant, and Equipment, net 7,846,736 5,575,894 Property, Plant, and Equipment net 2,822,221 304,936 Qurrent Liabilities: 2 12,383,553 8,288,654 LIABILITIES AND STOCKHOLDERS' EQUITY 2 129,539 Accounts payable 68,662 129,539 Accounts payable 68,662 129,539 Accounts payable 68,662 129,539 Accrued expenses 388,253 192,833 Total Current Liabilities 765,212 654,971 Long-Term Debt 5,945,186 | Cash and cash equivalents | \$ | 1,806,514 | \$ | |
| accounts of \$16,057 (\$20,266 in 2007) 283,129 363,758 Materials and supplies 63,625 63,538 Prepaid expenses 28,048 4,900 Total Current Assets 2,181,316 2,361,693 Other investments 352,501 351,067 Property, Plant, and Equipment: 12,475,685 11,180,524 Under construction 2,013,665 367,366 Less accumulated depreciation 2,013,665 367,369 Property, Plant, and Equipment, net 7,846,736 5,575,894 Property, Plant, and Equipment net 7,846,736 5,575,894 Less accumulated depreciation 6,642,614 5,971,996 Property, Plant, and Equipment net 7,846,736 5,575,894 Loss accumulated depreciation 8,662,614 5,971,996 Current portion of long-term debt 8,862,21 3,036,956 Accounts payable 8,862,21 129,539 Accounts payable 8,862,21 129,539 Accounts payable 8,862,21 129,539 Accounts payable 9,966,30 3,788,976 | Marketable securities | | - | | 40,000 |
| Materials and supplies 63,625 63,538 Prepaid expenses 28,048 4,900 Total Current Assets 2,181,316 2,361,693 Other investments 352,501 351,067 Property, Plant, and Equipment: In-service 12,475,685 11,180,524 Under construction 2,013,665 367,366 Less accumulated depreciation 6,642,614 5,971,996 Property, Plant, and Equipment, net 7,846,736 5,575,894 Property, Plant, and Equipment net 7,846,736 5,575,894 Property, Plant, and Equipment net 2,013,665 367,366 Property, Plant, and Equipment net 7,846,736 5,575,894 Property, Plant, and Equipment net 2,013,665 3,68,654 Property, Plant, and Equipment net 2,013,665 3,671,996 Property, Plant, and Equipment net 2,013,665 3,671,996 Property, Plant, and Equipment net 2,013,665 3,68,654 Less accumulated depreciation 8,622,612 3,69,654 Less accumulated depreciation 8,622,612 3,69,654 | Accounts receivable, less allowance for doubtful | | | | |
| Prepaid expenses 28,048 4,900 Total Current Assets 2,181,316 2,361,693 Other investments 352,501 351,067 Property, Plant, and Equipment: | accounts of \$16,057 (\$20,266 in 2007) | | · · | | • |
| Total Current Assets 2,181,316 2,381,693 Other investments 352,501 351,067 Property, Plant, and Equipment: | Materials and supplies | | 63,625 | | 63,538 |
| Other investments 352,501 351,067 Property, Plant, and Equipment: In-service 12,475,685 11,180,524 Under construction 2,013,665 367,366 Less accumulated depreciation 6,642,614 5,971,996 Property, Plant, and Equipment, net 7,846,736 5,575,894 Property, Plant, and Equipment and Equipment, net 7,846,736 5,575,894 LABILITIES AND STOCKHOLDERS' EQUITY 200,000 3,000,053 8,288,654 LAGUITES AND STOCKHOLDERS' EQUITY 200,000 3,000,053 8,288,654 LAGUITES AND STOCKHOLDERS' EQUITY 200,000 2,000,000 3,000,053 8,288,654 LAGUITES AND STOCKHOLDERS' EQUITY 200,000 2,000,000 3,000,053 8,288,654 LAGUITES AND STOCKHOLDERS' EQUITY 200,000 2,000,000 2,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 3,000,000 | Prepaid expenses | _ | 28,048 | _ | 4,900 |
| Property, Plant, and Equipment: in-service Under construction 12,475,685 367,366 11,180,524 367,366 Less accumulated depreciation 14,489,350 11,547,890 6,642,614 5,971,996 15,971,996 Property, Plant, and Equipment, net 7,846,736 5,575,894 5,757,894 LIABILITIES AND STOCKHOLDERS' EQUITY \$ 10,380,553 \$ 8,288,654 Current Liabilities: \$ 282,221 \$ 304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 3388,253 192,833 192 | Total Current Assets | _ | 2,181,316 | _ | 2,361,693 |
| In-service | Other investments | | 352,501 | | 351,067 |
| Under construction 2,013,665 367,366 Under construction 14,489,350 11,547,890 Less accumulated depreciation 6,642,614 5,971,996 Property, Piant, and Equipment, net 7,846,736 5,575,894 *** 10,380,553 \$ 3,288,654 *** Current Liabilities: *** *** Current portion of long-term debt \$ 282,221 \$ 304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: ** ** Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Property, Plant, and Equipment: | | | | |
| Less accumulated depreciation 14,489,350 (6,642,614 (5,971,996)) Property, Plant, and Equipment, net 7,846,736 (5,575,894) \$ 10,380,553 (\$ \$,288,654) LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 282,221 (\$ 304,936) Accounts payable 68,662 (129,539) Advance billing and customer deposits 16,076 (27,663) Accrued expenses 388,253 (192,833) Total Current Liabilities 755,212 (654,971) Long-Term Debt 5,945,186 (3,738,976) Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding (6,100 (6,100)) 6,100 (6,100) Paid-in capital (7,00) 3,290 (3,290) 3,290 (3,290) Retained earnings 3,670,765 (3,885,317) Total Stockholders' Equity 3,680,155 (3,894,707) | In-service | | • | | |
| Less accumulated depreciation 6,642,614 5,971,996 Property, Plant, and Equipment, net 7,846,736 5,575,894 \$ 10,380,553 \$ 8,288,654 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 282,221 \$ 304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Under construction | - | 2,013,665 | - | 367,366 |
| Less accumulated depreciation 6,642,614 5,971,996 Property, Plant, and Equipment, net 7,846,736 5,575,894 \$ 10,380,553 \$ 8,288,654 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 282,221 \$ 304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | | | 14.489.350 | | 11.547.890 |
| Property, Plant, and Equipment, net 7,846,736 5,575,894 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: 304,936 Current portion of long-term debt \$282,221 \$304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Loop accumulated depreciation | | | | |
| \$ 10,380,553 \$ 8,288,654 | | - | | - | |
| LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$282,221 \$304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 < | Property, Plant, and Equipment, net | - | | - | |
| Current Liabilities: \$ 282,221 \$ 304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 92id-in capital 3,290 3,290 6,100 6,100 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | | \$ _ | 10,380,553 | \$_ | 8,288,654 |
| Current portion of long-term debt \$ 282,221 \$ 304,936 Accounts payable 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Connect portion of roing term documents 68,662 129,539 Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Current Liabilities: | | | _ | |
| Advance billing and customer deposits 16,076 27,663 Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Current portion of long-term debt | \$ | | \$ | • |
| Accrued expenses 388,253 192,833 Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding Paid-in capital 6,100 6,100 Paid-in capital Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Accounts payable | | , | | |
| Total Current Liabilities 755,212 654,971 Long-Term Debt 5,945,186 3,738,976 Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Advance billing and customer deposits | | • | | · |
| Long-Term Debt 5,945,186 3,738,976 | Accrued expenses | - | 388,253 | - | 192,833 |
| Stockholders' Equity: Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Total Current Liabilities | | 755,212 | | 654,971 |
| Common stock, \$10 par value, 2,703 shares authorized and 6,100 6,100 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Long-Term Debt | - | 5,945,186 | | 3,738,976 |
| Common stock, \$10 par value, 2,703 shares authorized and 6,100 6,100 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | Stockholders' Equity: | | | | |
| 610 shares issued and outstanding 6,100 6,100 Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | | | | | |
| Paid-in capital 3,290 3,290 Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | | | 6,100 | | 6,100 |
| Retained earnings 3,670,765 3,885,317 Total Stockholders' Equity 3,680,155 3,894,707 | | | 3,290 | | 3,290 |
| Total Stockholders' Equity 3,680,155 3,894,707 | · | | 3,670,765 | | 3,885,317 |
| | | | 3,680,155 | | 3,894,707 |
| | | \$ | 10,380,553 | . \$ | 8,288,654 |

| | | | Total Company Income Statement | | Year: 2008 |
|------|----------|-------|---|-------------------|---|
| Line | | Acct. | | This | Last |
| 1 | | No. | Description | Year | Year |
| No. | | (a) | (b) • | (c) | (d) |
| 1 | | | REVENUES: | | , |
| 2 | | 5000 | Basic Local Service Revenues | | |
| 3 | | 5080 | Network Access Revenues | | |
| 4 | * | 5100 | Long Distance Message Revenue | | |
| 5 | ٨ | 5110 | Unidirectional Long Distance Revenue | Sec Attached AUDI | TED Financials |
| 6 | ^ | 5120 | Long Distance Private Network Revenue | | |
| 7 | ٨ | 5160 | Other Long Distance Revenue | | |
| 8 | ٨ | 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * | 5200 | Miscellaneous Revenue | | |
| 10 | ٨ | 5230 | Directory Revenue | | |
| 11 | ^ | 5240 | Rent Revenue | | |
| 12 | ٨ | 5250 | Corporate Operations Revenue | | |
| 13 | ٨ | 5260 | Miscellaneous Revenue | | |
| 14 | ٨ | 5270 | Carrier Billing and Collection Revenue | | |
| 15 | ٨ | 5280 | Nonregulated Revenue | | |
| 16 | | 5300 | Uncollectible Revenue | | |
| 17 | \dashv | 3300 | Total Revenues (L.2+L.3+L.4+L.9-L.16) | | |
| 18 | | | OPERATING EXPENSES: | | |
| 19 | | 6110 | Network Support Expense | | |
| 20 | | 6120 | General Support Expense | | |
| 21 | | 6210 | Central Office Switching Expense | | |
| 22 | | 6220 | Operator Systems Expense | | |
| 23 | | 6230 | Central Office Transmission Expense | | |
| 24 | | 6310 | Information Origination/Termination Expense | | |
| 25 | * | 6410 | Cable and Wire Facilities Expense | | |
| 26 | ٨ | 6431 | Aerial Wire Expense | | |
| 27 | Λ | 6441 | Conduit Systems Expense | | |
| 28 | | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | | 6530 | Network Operations Expense | | |
| 30 | | 6540 | Access Expense | | |
| 31 | | 6560 | Depreciation and Amortization Expense | | |
| 32 | Ì | 6610 | Marketing | | |
| 33 | ĺ | 6620 | Services | | |
| 34 | | 6710 | Executive and Planning | | |
| 35 | } | 6720 | General and Administrative | ŀ | |
| 36 | | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | _ | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | _ | 7100 | Other Operating Income and Expense | | |
| 39 | | 7200 | Operating Taxes | | |
| 40 | | | Net Operating Income (L.17-L.37+L.38-L.39) | | |
| 41 | T I | 7300 | Nonoperating Income and Expense | | |
| 42 | | 7400 | Nonoperating Taxes | | |
| 43 | | 7500 | Interest and Related Items | | |
| 44 | | 7600 | Extraordinary Items | | |
| 45 | | 7910 | Effects of Juris. Ratemaking Diff Net | | |
| 46 | | 7990 | Nonregulated Net Income | | |
| 47 | \neg | - | NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46) | | |

[^] Subaccount of the account marked with a *.

SOUTHERN MONTANA TELEPHONE COMPANY

Statements of Income

Years Ended December 31, 2008 and 2007

| | | 2008 | _ | 2007 |
|--|-----|-----------|-----|-----------|
| Operating Revenues: | | | | |
| Local network | \$ | 178,843 | \$ | 186,274 |
| Interstate access | | 1,919,946 | | 1,736,981 |
| Intrastate access | | 470,949 | | 405,697 |
| Miscellaneous | _ | 5,366 | - | 3,772 |
| Total Operating Revenues | _ | 2,575,104 | | 2,332,724 |
| Operating Expenses: | | | | |
| Plant specific operations | | 407,169 | | 483,618 |
| Plant nonspecific operations | | 180,703 | | 299,760 |
| Customer | | 67,635 | | 53,034 |
| Corporate | | 874,999 | | 586,597 |
| Depreciation and amortization | | 675,903 | | 597,798 |
| Other operating taxes | | 63,359 | | 46,986 |
| Nonregulated, net | _ | 135,554 | _ | 71,649 |
| Total Operating Expenses | _ | 2,405,322 | _ | 2,139,442 |
| Operating Income | | 169,782 | | 193,282 |
| Other Income (Expense): | | | | |
| Other Income (Expense) | | (93,827) | | 97,410 |
| Allowance for funds used during construction | - | 39,674 | _ | 15,248 |
| Total Other Income (Expense) | - | (54,153) | _ | 112,658 |
| Income Available for Fixed Charges | | 115,629 | | 305,940 |
| Fixed Charges - Interest on Long-Term Debt | - | 189,695 | _ | 91,589 |
| Net Income (Loss) | \$_ | (74,066) | \$_ | 214,351 |

Montana Total State Income Statement

| | | | Montana Total State Income Statement | | Year: 2008 |
|------|---|-------|---|----------------|------------|
| Line | | Acct. | | This | Last |
| 1 1 | | No. | Description | Year | Year |
| No. | | (a) | (b) | (c) | (d) |
| 1 | | | REVENUES: | | |
| 2 | | 5000 | Basic Local Service Revenues | | |
| 3 | | 5080 | Network Access Revenues | | |
| 4 | * | 5100 | Long Distance Message Revenue | | |
| 5 | ^ | 5110 | Unidirectional Long Distance Revenue | Not Applicable | |
| 6 | ^ | 5120 | Long Distance Private Network Revenue | | |
| 7 | ^ | 5160 | Other Long Distance Revenue | | |
| 8 | ^ | 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * | 5200 | Miscellaneous Revenue | | |
| 10 | ^ | 5230 | Directory Revenue | | |
| 11 | ^ | 5240 | Rent Revenue | | |
| 12 | ^ | 5250 | Corporate Operations Revenue | | |
| 13 | ^ | 5260 | Miscellaneous Revenue | | |
| 14 | ^ | 5270 | Carrier Billing and Collection Revenue | | |
| 15 | ^ | 5280 | Nonregulated Revenue | | |
| 16 | | 5300 | Uncollectible Revenue | | |
| 17 | | | Total Revenues (L.2+L.3+L.4+L.9-L.16) | | |
| 18 | | | OPERATING EXPENSES: | | |
| 19 | | 6110 | Network Support Expense | | |
| 20 | | 6120 | General Support Expense | | |
| 21 | | 6210 | Central Office Switching Expense | | |
| 22 | | 6220 | Operator Systems Expense | | |
| 23 | | 6230 | Central Office Transmission Expense | | |
| 24 | | 6310 | Information Origination/Termination Expense | | |
| 25 | * | 6410 | Cable and Wire Facilities Expense | | |
| 26 | ^ | 6431 | Aerial Wire Expense | | |
| 27 | ^ | 6441 | Conduit Systems Expense | | |
| 28 | | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | | 6530 | Network Operations Expense | | |
| 30 | | 6540 | Access Expense | | |
| 31 | | 6560 | Depreciation and Amortization Expense | | |
| 32 | | 6610 | Marketing | | |
| 33 | | 6620 | Services | | |
| 34 | | 6710 | Executive and Planning | | |
| 35 | | 6720 | General and Administrative | | |
| 36 | | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | | 7100 | Other Operating Income and Expense | | |
| 39 | | 7200 | Operating Taxes | | |
| 40 | | | Net Operating Income (L.17-L.37+L.38-L.39) | | |

[^] Subaccount of the account marked with a *.

| | | | Montana Intrastate Income Statement | | Year: 2008 |
|------|---|-------|---|----------------|------------|
| Line | | Acct. | | This | Last |
| No. | | No. | Description | Year | Year |
| INO. | | (a) | (b) | (c) | (d) |
| 1 | | | REVENUES: | | |
| 2 | | 5000 | Basic Local Service Revenues | | |
| 3 | | 5080 | Network Access Revenues | | |
| 4 | * | 5100 | Long Distance Message Revenue | | |
| 5 | Λ | 5110 | Unidirectional Long Distance Revenue | Not Applicable | |
| 6 | ^ | 5120 | Long Distance Private Network Revenue | | |
| 7 | ^ | 5160 | Other Long Distance Revenue | | |
| 8 | ٨ | 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * | 5200 | Miscellaneous Revenue | | |
| 10 | ^ | 5230 | Directory Revenue | | |
| 11 | Λ | 5240 | Rent Revenue | | |
| 12 | Λ | 5250 | Corporate Operations Revenue | | |
| 13 | Λ | 5260 | Miscellaneous Revenue | | |
| 14 | ^ | 5270 | Carrier Billing and Collection Revenue | | |
| 15 | Λ | 5280 | Nonregulated Revenue | | |
| 16 | | 5300 | Uncollectible Revenue | | |
| 17 | | | Total Revenues (L.2+L.3+L.4+L.9-L.16) | | |
| 18 | | | OPERATING EXPENSES: | | |
| 19 | | 6110 | Network Support Expense | | |
| 20 | | 6120 | General Support Expense | | |
| 21 | | 6210 | Central Office Switching Expense | | |
| 22 | | 6220 | Operator Systems Expense | | |
| 23 | | 6230 | Central Office Transmission Expense | | |
| 24 | • | 6310 | Information Origination/Termination Expense | | |
| 25 | * | 6410 | Cable and Wire Facilities Expense | | |
| 26 | ^ | 6431 | Aerial Wire Expense | | |
| 27 | ^ | 6441 | Conduit Systems Expense | | |
| 28 | | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | | 6530 | Network Operations Expense | | |
| 30 | | 6540 | Access Expense | | |
| 31 | | 6560 | Depreciation and Amortization Expense | | |
| 32 | | 6610 | Marketing | | |
| 33 | | 6620 | Services | | |
| 34 | | 6710 | Executive and Planning | | |
| 35 | | 6720 | General and Administrative | | |
| 36 | | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | | 7100 | Other Operating Income and Expense | | |
| 39 | | 7200 | Operating Taxes | | |
| 40 | | | Net Operating Income (L.17-L.37+L.38-L.39) | | |

[^] Subaccount of the account marked with a *.

Year: 2008

Montana Intrastate Regulated Income Statement

| | | | violitalia ilitiastate Regulateu income Statem | | 1 001. 2000 |
|------|---|-------|---|----------------|-------------|
| Line | | Acct. | | This | Last |
| No. | | No. | Description | Year | Year |
| 110. | | (a) | (b) | (c) | (d) |
| 1 | | | REVENUES: | | |
| 2 | | 5000 | Basic Local Service Revenues | | |
| 3 | | 5080 | Network Access Revenues | | |
| 4 | * | 5100 | Long Distance Message Revenue | Not Applicable | |
| 5 | ^ | 5110 | Unidirectional Long Distance Revenue | | |
| 6 | ^ | 5120 | Long Distance Private Network Revenue | | |
| 7 | ^ | 5160 | Other Long Distance Revenue | | |
| 8 | ^ | 5169 | Other Long Distance Revenue Settlements | | |
| 9 | * | 5200 | Miscellaneous Revenue | | |
| 10 | ^ | 5230 | Directory Revenue | į | |
| 11 | ^ | 5240 | Rent Revenue | | |
| 12 | ^ | 5250 | Corporate Operations Revenue | | |
| 13 | ٨ | 5260 | Miscellaneous Revenue | | |
| 14 | ^ | 5270 | Carrier Billing and Collection Revenue | | |
| 15 | ^ | 5280 | Nonregulated Revenue | | |
| 16 | | 5300 | Uncollectible Revenue | | |
| 17 | | | Total Revenues (L.2+L.3+L.4+L.9-L.16) | #VALUE! | |
| 18 | | | OPERATING EXPENSES: | | |
| 19 | | 6110 | Network Support Expense | | |
| 20 | | 6120 | General Support Expense | | |
| 21 | | 6210 | Central Office Switching Expense | | |
| 22 | | 6220 | Operator Systems Expense | | |
| 23 | | 6230 | Central Office Transmission Expense | | |
| 24 | | 6310 | Information Origination/Termination Expense | | |
| 25 | * | 6410 | Cable and Wire Facilities Expense | | |
| 26 | ^ | 6431 | Aerial Wire Expense | | |
| 27 | ^ | 6441 | Conduit Systems Expense | | |
| 28 | | 6510 | Other Property, Plant & Equipment Expense | | |
| 29 | | 6530 | Network Operations Expense | İ | |
| 30 | | 6540 | Access Expense | | |
| 31 | | 6560 | Depreciation and Amortization Expense | | |
| 32 | | 6610 | Marketing | | |
| 33 | | 6620 | Services | | |
| 34 | | 6710 | Executive and Planning | | |
| 35 | | 6720 | General and Administrative | | |
| 36 | | 6790 | Provision for Uncollectible Notes Receivable | | |
| 37 | | | Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) | | |
| 38 | | 7100 | Other Operating Income and Expense | | |
| 39 | | 7200 | Operating Taxes | | |
| 40 | | | Net Operating Income (L.17-L.37+L.38-L.39) | #VALUE! | |
| | | | | | |

[^] Subaccount of the account marked with a *.

| | Average Rate Base - Total State Year: 2008 | | | | | | | |
|------|--|---|------|------|--|--|--|--|
| Line | Acct. | | This | Last | | | | |
| No. | No. | Description | Year | Year | | | | |
| 140. | (a) | (b) | (c) | (d) | | | | |
| 1 | 2001 | Telecommunications Plant in Service | | | | | | |
| 2 | 3100 | Accumulated Depreciation | | | | | | |
| 3 | 2002 | Property Held for Future Telecommunications Use | | | | | | |
| 4 | 3200 | Accumulated Depreciation - 2002 | | | | | | |
| 5 | 1220 | Materials and Supplies | | | | | | |
| 6 | 4340 | Noncurrent Deferred Operating Income Taxes | | | | | | |
| 7 | | Pre-1971 Unamortized Investment Tax Credits | | | | | | |
| 8 | | Cash Working Capital (if allowed by Commission) | | | | | | |
| 9 | | Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8) | | | | | | |

Average Rate Base - Intrastate

| | · · · · · · · · · · · · · · · · · · · | | 1 | |
|------|---------------------------------------|---|------|------|
| Line | Acct. | | This | Last |
| No. | No. | Description | Year | Year |
| 100. | (a) | (b) | (c) | (d) |
| 1 | 2001 | Telecommunications Plant in Service | | |
| 2 | 3100 | Accumulated Depreciation | | |
| 3 | 2002 | Property Held for Future Telecommunications Use | | |
| 4 | 3200 | Accumulated Depreciation - 2002 | | |
| 5 | 1220 | Materials and Supplies | | |
| 6 | 4340 | Noncurrent Deferred Operating Income Taxes | | |
| 7 | | Pre-1971 Unamortized Investment Tax Credits | | |
| 8 | | Cash Working Capital (if allowed by Commission) | | |
| 9 | | Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8) | | |

Average Rate Base - Regulated Intrastate

| Line | Acct. | | This | Last |
|------|-------|---|----------|------|
| No. | No. | Description | Year | Year |
| 140. | (a) | (b) | (c) | (d) |
| 1 | 2001 | Telecommunications Plant in Service | 14489350 | |
| 2 | 3100 | Accumulated Depreciation | 6642614 | |
| 3 | 2002 | Property Held for Future Telecommunications Use | | |
| 4 | 3200 | Accumulated Depreciation - 2002 | | |
| 5 | 1220 | Materials and Supplies | 63625 | |
| 6 | 4340 | Noncurrent Deferred Operating Income Taxes | | |
| 7 | | Pre-1971 Unamortized Investment Tax Credits | | |
| - 8 | | Cash Working Capital (if allowed by Commission) | | |
| 9 | | Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8) | 7910361 | |

| | Statement of Cash Flows | | Year: 2008 |
|---------------|--|-----------------|-------------|
| Line | Item Description | Amount | Amount |
| No. | (a) | (b) | (c) |
| 1 | Increase/(decrease) in Cash & Cash Equivalents | | |
| 2 | Cash Flows from Operating Activities: | | |
| 3 | Net Income | | |
| 4 | Reconciliation Adjustments: | | |
| 5 | Depreciation & Amortization | | |
| 6 | Provision for Accounts Receivable Losses | | |
| 7 | Deferred Income Taxes - Net | | |
| 8 | Unamortized Investment Tax Credits (ITCs) - Net | | |
| 9 | Allowance for Funds Used During Construction (AFUDC) | See ATTACHED ST | TATEMENT |
| 10 | Change in Operating Receivables - Net | OF CASH FLOWS | |
| 11 | Change in Materials, Supplies & Inventories - Net | | |
| 12 | Change in Operating Payables & Accrued Liabilities - Net | | |
| 13 | Change in Other Assets & Deferred Credits - Net | | |
| 14 | Change in Other Liabilities & Deferred Credits - Net | | |
| 15 | Other (explained on back of this page) | | |
| 16 | Total Adjustments | | |
| 17 | Net Cash Provided by/(Used in) Operating Activities | | |
| 18 | Cash Inflows/Outflows From Investing Activities: | | |
| 19 | Construction/Acquisition of Property, Plant & Equipment (net of | | |
| 20 | AFUDC & Capital Lease Related Acquisitions) | | |
| 21 | Proceeds from Disposals of Property, Plant & Equipment | | |
| 22 | Investments In & Advances to Affiliates | | |
| 23 | Proceeds from Repayment of Advances | · | |
| 24 | Other Investing Activities (explained on back of this page) | | |
| 25 | Net Cash Provided by/(Used in) Investing Activities | | |
| 26 | Cash Flows from Financing Activities: | | |
| 27 | Net Incr./(Decr.) in Short-Term Debt, Original maturity <= 3 mo. | | |
| 28 | Advances from Affiliates | | |
| 29 | Repayment of Advances from Affiliates | | |
| 30 | Proceeds from Issuances of Long-Term Debt | | |
| 31 | Repayment of Long-Term Debt | | |
| 32 | Payment of Capital Lease Obligations | | |
| 33 | Proceeds from Issuing Common Stock/Parent Co. Equity Investment | | |
| 34 | Repurchase of Treasury Shares Dividends Paid | | |
| 35 | | | |
| 36 37 | Other Financing Activities (explained on back of this page) | | |
| 38 | Net Cash Provided by Financing Activities Effect of Exchange Rate Changes on Cash | | |
| 38 | Net Increase/(Decrease) in Cash & Cash Equivalents | | |
| 40 | Cash & Cash Equivalents at Beginning of Period | | |
| 41 | Cash & Cash Equivalents at End of Period | | |

SOUTHERN MONTANA TELEPHONE COMPANY

Statements of Cash Flows

Years Ended December 31, 2008 and 2007

| | _ | 2008 | _ | 2007 |
|---|----|-------------|----|-------------|
| Cash Flows from Operating Activities: | | | | |
| Net income (loss) | \$ | (74,066) | \$ | 214,351 |
| Adjustments to reconcile net income (loss) to net cash | | | | |
| provided by operating activities: | | | | |
| Depreciation and amortization | | 675,903 | | 597,798 |
| Patronage capital credits, noncash | | - | | (16,668) |
| Realized (gain) loss on sale of marketable securities | | - | | (15,495) |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | | 80,626 | | 28,254 |
| Materials and supplies | | (87) | | (7,111) |
| Prepaid expenses | | (23,148) | | 1,792 |
| Accounts payable | | (60,877) | | (150,556) |
| Advance billing and customer deposits | | (11,587) | | (9,495) |
| Accrued expenses | - | 195,420 | - | (5,299) |
| Net Cash Provided by Operating Activities | - | 782,184 | _ | 637,571 |
| Cash Flows from Investing Activities: | | | | |
| Capital expenditures | | (2,946,745) | | (2,733,712) |
| Purchase of other investments | | - | | (1,191,482) |
| Proceeds from sale of marketable securities and investments | - | 38,566 | - | 1,441,497 |
| Net Cash Used by Investing Activities | - | (2,908,179) | - | (2,483,697) |
| Cash Flows from Financing Activities: | | | | |
| Proceeds from long-term debt | | 2,413,061 | | 3,380,129 |
| Payments on long-term debt | | (229,566) | | (1,118,880) |
| Equity distributions | - | (140,486) | | (139,540) |
| Net Cash Provided by Financing Activities | - | 2,043,009 | | 2,121,709 |
| Net Increase (Decrease) in Cash and Cash Equivalents | | (82,986) | | 275,583 |
| Cash and Cash Equivalents, beginning | | 1,889,500 | | 1,613,917 |
| Cash and Cash Equivalents, ending | \$ | 1,806,514 | \$ | 1,889,500 |
| Cash Paid During the Year for Interest, net of amount capitalized | \$ | 150,021 | \$ | 76,341 |

Company Name: Southern Montana Telephone Company

Company Name: Southern Montana Telephone Company

| | | | | Z | et Plant in Se | Net Plant in Service - Detail | | | | Year: 2008 |
|---------|----------|-------------|--|----------------------|------------------|-------------------------------|------------------|-----------------------------|-------------------------|--------------------------|
| , }- | | | | Beginning of Year | | | Sales & | End of Year Account 2001 | Year End Accumulated | End of Year Net Plant |
| No. | | Account (a) | Description (b) | Balance (c) | Additions (d) | Retirements (e) | Transfers (f) | Balance (g) | Depreciation (h) | Balance |
| - (| * < | * 2110 | Land and Support Assets | 1479607 | 44399 | 21063 | | 1503763 | 1231247 | |
| 7 6 | . < | | Land Motor Vehicles | 38431 | | 21063 | | 38451 | 071001 | 38451 |
| . 4 | < | | Aircraft | 2040/4 | | 210012 | | 077007 | 271721 | 10001- |
| Š | <u> </u> | | Special Purpose Vehicles | | | | | | | • |
| 9 | < | | Garage Work Equipment | | | | | | | |
| ۲- | < | | Other Work Equipment | 467578 | | | | 467578 | 470897 | -3319 |
| ∞ | < | | Buildings | 629513 | 28625 | | | 658957 | 441991 | 216966 |
| o ; | < | | Furniture | 41295 | | | | 41296 | 23261 | 18035 |
| 10 | < • | | Office Equipment | 1 | 1 | | | | | |
| 11 | | | General Purpose Computers | 26487 | 15774 | | | 42261 | 23877 | 18384 |
| 12 | | 2211 | Analog Electronic Switching | | | | | | | |
| 13 | | 2212 | Digital Electronic Switching | 1311167 | 72139 | 6268 | | 1376392 | 1111085 | 265307 |
| 14 | | 2215 | Electro-Mechanical Switching | • | | | | | | |
| 15 | | 2220 | Operator Systems | | | | | | | |
| 91 | | 2231 | Radio Systems | • | | | | | | |
| 17 | | | Circuit Equipment | 1457758 | 272147 | | | 1737695 | 790121 | 947574 |
| 18 | | | Information Orig & Term Equip | 22595 | | | | 22595 | 18527 | 4068 |
| 19 | < | | Station Apparatus | 18527 | | | | 18527 | 18527 | • |
| 70 | < | | Customer Premises Wiring | | | | | | | |
| 21 | < | 2341 | Large Private Branch Exchanges | | | | | | | • |
| 22 | <u> </u> | ^ 2351 | Public Telephone Term. Equip. | 4068 | | | | 4068 | | 4068 |
| 23 | < | ^ 2362 | Other Terminal Equipment | | | | | | | |
| 24 | | 2411 | Poles | | | | | | | |
| 25 | * | | Cable and Wire Facilities | | | | | | | |
| 26 | < | 2421 | Aerial Cable | 33375 | | • | | 33375 | 22717 | 10658 |
| 27 | < | 2422 | Underground Cable | | | | | | | |
| 28 | | ^ 2423 | Buried Cable | 8675789 | 926067 | | | 7801865 | 3468917 | 4332948 |
| 29 | | ^ 2424 | Submarine Cable | •••• | | | | | | |
| 30 | | ^ 2425 | Deep Sea Cable | | | | | | | |
| 31 | _ | ^ 2426 | | | | | | | | |
| 32 | | 2431 | Aerial Wire | | | | | | | |
| 33 | _ | 2441 | Conduit Systems | | | | | | | |
| 34 | | | Totals | 11180300 | 1314752 | 30042 | | 12475685 | 6642614 | 5833071 |
| < | ubac | ccount of | Subaccount of the account marked with a *. | | | | | | | PAGE 12 |

Company Name: Southern Montana Telephone Company

| \$ \$ | | | |
|------------------------------|---|---|--------------------------|
| Year: 2008 | Book Cost of Property at End of Year (g) | | |
| | Transfers and Adjustments Charges and (Credits) | | |
| | Retirements During the Year (e) | | |
| Future Use | Additions During the Year (d) | | |
| of Plant Held for Future Use | Book Cost of Property at Beginning of Year (c) | | |
| alysis | Date Included in Account 2002 (b) | | |
| | Location and Description of Property (a) | None | Totals (Sum L.1 to L.29) |
| | Line No. | - 2 & 4 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 & 0 | \vdash |

Company Name: Southern Montana Telephone Company

| Year: 2008 | Total | Cost | <u> </u> | 7.50% | 2.00% | 4.6-4.8% | 2.6924.58% | | 6.62% |
|--------------------------------|--------------|-------------|------------------|--------------|----------|----------|------------|---|---------|
| ** | Amortization | of Premium | or Discount | | | <u>4</u> | <u> </u> | | |
| | 7 | Annual | Net Cost | 13312 | 169624 | 118788 | 110518 | | 412242 |
| | | Yield to | Maturity | | | | | | |
| • | Outstanding | Per Balance | Sheet | 143744 | 1190468 | 2480134 | 2413061 | | 6227407 |
| erm Debi | | Net | Per \$100 (α) | (6) | | | | | |
| of Long To | | Net | Proceeds (+) | | | | | | |
| Average Cost of Long Term Debt | | Gross | Proceeds | | | | | | |
| Ave | | Principal | Amount (d) | 000599 | 4087000 | 2480134 | 2413061 | | 9645195 |
| | | Maturity | Date | "2010. | Various | "2026 | "2026 | | |
| | | Issue | Date | "2000 | Various | "2008 | "2008 | | |
| | | | Description | Note Payable | USDA-RUS | USDA-RUS | USDA-RUS | | Total |
| : | | J. D | No. | 1 | | | 0 / 80 | , 0 11 21 21 25 25 25 25 25 25 25 25 25 25 25 25 25 | 30 |

Company Name: Southern Montana Telephone Company

| AA. | [| | | |
|-------------------------|--------------------|-------------------------|---|--------------------------|
| Year: 2008 | Embedded | Cost | | |
| • | Annual | Cost (k) | | |
| | Principal | Outstanding (j) | | |
| | Cost of | Money (i) | | |
| | Net Proceeds | <i>Per</i> \$100 (h) | | |
| i Stock | Net Proceeds | Amounts (g) | | |
| Cost of Preferred Stock | Gross Proceeds | Amounts (f) | | |
| Cost of | Par Value | Of Issue (e) | | |
| | Call Redemption | Price (d) | | |
| | Method of | Offering (c) | | |
| | Date of | Issuance (b) | | |
| | · · | Description (a) | | Totals (Sum L.1 to L.29) |
| | ne | No. | 1 NONE 2 NONE 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 | - |
| | Li | Z | | 6 |

Company Name: Southern Montana Telephone Company

| | | | | Analys | Analysis of Common Stock | Stock | | | Year: 2008 |
|--------|--|--------------------|-----------------------|-------------|--------------------------|-----------|--------|-----|------------|
| | | Avg. Number | Book | | | | Market | et | Price/ |
| | | of Shares | Value | Earnings | Dividends | Retention | Price | 42 | Earnings |
| Line | | Outstanding | (per share) | (per share) | (per share) | Ratio | High | Low | Ratio |
| j Ž | (a) | (| (0) | (b) | (e) | Ð | (g) | (h) | (j) |
| | Year Ended December 31: | | | | | | | | |
| 2 | | | | | | | | | |
| | | | | | | | | | • |
| 4 | | | | | | | | | |
| 43 | 5 This stock is privately held, there is no market for this stock. | e is no market for | this stock. | | | | | | |
| 9 | | | | | | | | | |
| 1 | | | | | | | | | |
| ∞ | Month by Month Data: | | | | | | | | |
| 6 | | | | | | | | | |
| 10 | February | | | | | | | | |
| Π | March | | | | | | | | |
| 12 | | | | | | | | | |
| 13 | May | | | | | | | • | |
| 14 | | | | | | | | | |
| 15 | | | .,, 1 , 21 | | | | | | |
| 16 | August | | | | | | | | |
| 17 | | | | | | | | | |
| 18 | | | | | | | | | |
| 19 | November. | | | | | | | | |
| 20 | December | | | | | • | | | |
| 21 | | | | | | | | | |
| 22 | | | | | | | | | |
| 23 | | | | | | | | | |

SOUTHERN MONTANA TELEPHONE COMPANY

Statements of Changes in Stockholders' Equity

Years Ended December 31, 2008 and 2007

| | | | | | | | | Accumulated | | |
|--|--------|-------|--------|----|---------|----|-----------|----------------|----|-----------|
| | Capit | tal S | Stock | | | | | Other | | |
| | Shares | | | | Paid-in | | Retained | Comprehensive | | |
| | Issued | _ | Amount | _ | Capital | | Earnings | Income | _ | Total |
| Balance, December 31, 2006 | 610 | \$ | 6,100 | \$ | 3,290 | \$ | 3,810,506 | \$ (10,605) | \$ | 3,809,291 |
| Change in unrealized loss on available for sale securities | - | | - | | - | | - | 26,100 | | 26,100 |
| Reclassification adjustment | - | | - | | - | | - | (15,495) | | (15,495) |
| Distributions | - | | - | | - | | (139,540) | - | | (139,540) |
| Net income | | - | | _ | | , | 214,351 | | - | 214,351 |
| Balance, December 31, 2007 | 610 | | 6,100 | | 3,290 | | 3,885,317 | - | | 3,894,707 |
| Distributions | - | | - | | - | | (140,486) | - | | (140,486) |
| Net loss | | - | | - | _ | | (74,066) | | • | (74,066) |
| Balance, December 31, 2008 | 610 | \$ | 6,100 | \$ | 3,290 | ; | 3,670,765 | \$ _ | \$ | 3,680,155 |

Company Name: Southern Montana Telephone Company

| Year: 2008 | Retirement or Reaquisition (a) | |
|---|---------------------------------|--------------------------|
| the Year | Gain or (Loss) | |
| Stock and Funded Debt Reacquired or Retired During the Year | Reaquisition or Retirement Cost | |
| Debt Reacquired | Principal Amount | |
| ock and Funded | Number of Shares | |
| <u> </u> | Call or Retirement Date | |
| | Description of Security | Totals (Sum L.1 to L.29) |
| | Line No. | 30 |

Page 1 of 2

Company Name: Southern Montana Telephone Company

PAGE 18 Vear: 2008 Total Ξ Clearances (G) Expenses Other Θ Rents (e) N/A Total Company Expense Matrix Benefits and Wages Salaries <u>ම</u> nformation Origination/Termination Expense Public Telephone Terminal Equipment Exp. Large Private Branch Exchange Expense Intrabuilding Network Cable Expense General Purpose Computers Expense Other Terminal Equipment Expense Central Office Transmission Expense Special Purpose Vehicles Expense Garage Work Equipment Expense Cable and Wire Facilities Expense Central Office Switching Expense Other Work Equipment Expense Furniture and Artworks Expense Underground Cable Expense Electro-Mechanical Expense Description Land and Building Expense Circuit Equipment Expense Office Equipment Expense Station Apparatus Expense Analog Electronic Expense Digital Electronic Expense Submarine Cable Expense Operator Systems Expense Deep Sea Cable Expense Network Support Expense General Support Expense Radio Systems Expense Motor Vehicle Expense Buried Cable Expense Aerial Cable Expense Subaccount of the account marked with a *. Aerial Wire Expense Aircraft Expense Poles Expense Subtotals 6210 6212 6215 6310 6410 6425 6426 6116 6220 6230 6232 6362 6422 6423 6424 6112 6113 6114 6120 6123 6211 6121 6122 6124 6231 6311 6341 6351 6411 6421 Acct. Š. (a) < < < < < < < < < < Line Š 9 13 14 14

Company Name: Southern Montana Telephone Company

SCHEDULE 17
Page 2 of 2

| Network Administration Expense Testing Expense Plant Operations Expense Engineering Expense |
|--|
| Depreciation - Telecomm. Plant in Service Depreciation-Prop. for Future Telecom. Use Amortization Expense - Tangible Amortization Expense - Intangible Amortization - Other Marketing Product Management Sales |
| |
| Information Management Legal Procurement Research and Development Other General and Administrative Provision for Uncollectible Notes Receivabl |

Company Name: Southern Montana Telephone Company

| | | | | 1 | ! | | | | Page 1 of 2 |
|--|---|------------|---|----------------|----------------------------|-------|----------------|------------|-------------|
| | | | | Total State E. | Total State Expense Matrix | had. | | | Vear: 2008 |
| | | Acct. | | Salaries | | | Other | | |
| No. | | No. | Description | and Wages | Benefits | Rents | Expenses | Clearances | Total |
| | _ | (a) | (a) | (3) | (n) | (2) | (a) | (8) | (m) |
| | * | 6110 | Network Support Expense | | | | | | |
| 7 | < | 6112 | Motor Vehicle Expense | | | | | | |
| m | < | 6113 | Aircraft Expense | | | | | | |
| 4 | < | 6114 | Special Purpose Vehicles Expense | | | | | | |
| 2 | < | 6115 | Garage Work Equipment Expense | | | | | | |
| 9 | < | 6116 | Other Work Equipment Expense | | | | | | |
| | * | 6120 | General Support Expense | | | | | | |
| ∞ | < | 6121 | Land and Building Expense | | | | | | |
| 6 | < | 6122 | Furniture and Artworks Expense | N/A | | | ,,, | | |
| 10 | < | 6123 | Office Equipment Expense | | | | | | |
| | < | 6124 | General Purpose Computers Expense | | | | | | |
| 12 | * | 6210 | Central Office Switching Expense | | | | | | |
| 13 | < | 6211 | Analog Electronic Expense | | | | | | |
| 14 | < | 6212 | Digital Electronic Expense | | | | | | |
| 15 | < | 6215 | Electro-Mechanical Expense | | | | | | |
| 16 | | 6220 | Operator Systems Expense | | | | | | |
| 17 | * | 6230 | Central Office Transmission Expense | | | | | | |
| 18 | < | 6231 | Radio Systems Expense | | | | | | |
| 19 | < | 6232 | Circuit Equipment Expense | | | | | | |
| 70 | * | 6310 | Information Origination/Termination Expense | | | | | | |
| 21 | < | 6311 | Station Apparatus Expense | | | | 4.4 | | |
| 22 | < | 6341 | Large Private Branch Exchange Expense | | | | | | |
| 23 | < | 6351 | Public Telephone Terminal Equipment Exp. | | | | | | |
| 24 | < | 6362 | Other Terminal Equipment Expense | | | | | | |
| 25 | * | 6410 | Cable and Wire Facilities Expense | | | | | | |
| 76 | < | 6411 | Poles Expense | | | | | | |
| 27 | < | 6421 | Aerial Cable Expense | | | | | | |
| 28 | < | 6422 | Underground Cable Expense | | | | | | - |
| 29 | < | 6423 | Buried Cable Expense | | | | | | |
| 30 | < | 6424 | Submarine Cable Expense | | | | | | |
| 31 | < | 6425 | Deep Sea Cable Expense | | | | | | |
| 32 | < | 6426 | Intrabuilding Network Cable Expense | | | | | | |
| 33 | < | 6431 | Aerial Wire Expense | | | | | | |
| 34 | | | Subtotals | | | | | | |
| \\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\ | | +-+ of the | Curboccaint of the account marked with a * | | | | | | PAGE 20 |

[^] Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

SCHEDULE 18
Page 2 of 2

| Accr | Acct. Description Salaries Salaries No. Description and Wages Benefits 641 | | | | lotal State Expense Matrix | spense matrix | | | | E Call . LOUG |
|--|---|------|-------|--|----------------------------|---------------|-------|----------|------------|---------------|
| No. Description and Wages Benefits Ratis Expenses Cherrances | ription and Wages Benefits b) (c) (d) ense es sxpense ion Expense ion Expense - Tangible - Intangible - Intangible ces ces ces ment ment ment ment ministrative inby company man Wages (d) (d) (d) (d) (e) (d) (e) (e) (f) (f) (f) (f) (f) (f) (f) (f) (f) (f | Line | Acct. | | Salaries | | | Other. | | |
| (a) Conduit Systems Expense (5510 Other Property Expenses (5511 Other Property Expenses (5511 Other Property Expenses (5512 Network Administration Expense (5513 Faithine Expense) (5514 Plant Operations Expense (5514 Plant Operations Expense) (5515 Expense) (5516 Depreciation - Telecomm. Plant in Service (5516 Depreciation - Telecomm. Plant in Service (5517 Amoritzation Expense - Intangible (5518 Amoritzation Cherr (5519 Manchestian - Cherr (5510 Manchestian - Cherr (5510 Manchestian - Cherr (5510 Manchestian - Cherr (5511 Expense - Intangible (5511 Expense - Intangible (5512 Manchestian - Cherr (5512 Faithine Services (5513 Froutenest Services (5514 Faithine Relations (5515 Froutenest (5515 Froutenest (5516 Cherry Expense - Intangible (5517 Expense Services (5517 Expense Manuhastative (5718 Froutenest (5718 Fro | bb) (c) (d) ense es sypense ion Expense ion Expense ense - Tangible - Intangible - | Ö. | No. | Description | and Wages | Benefits | Rents | Expenses | Clearances | Total |
| + 6441 + 6530 6530 6531 6532 6533 6534 6535 6540 6562 6561 6562 6561 6610 6611 6611 6622 6623 6623 6623 6624 6625 6625 6627 6629 6629 | 35 6441 Conduit Systems Expense 36 6510 Other Property Expenses 38 6531 Power Expense 39 6532 Network Operations Expense 40 6533 Testing Expense 41 6534 Plant Operations Expense 42 6535 Engineering Expense 43 6540 Ascoss Expense 44 6551 Depreciation - Teleconm. Plant in Service 45 6562 Depreciation - From the Teleconm. Use 45 6563 Amortization Expense - Tangible 47 6564 Amortization - Other 49 8 6610 Marketing 50 Amortization - Other Amortization - Other 49 8 6610 Marketing 50 Accounting and Finance 6622 Number Services 56 G711 Excentive 6722 Human Relations 56 6722 Human Relations 6722 Human Relations 61 6724 | | (a) | (p) | (0) | (p) | (e) | (f) | (g) | (h) |
| * 6510 | 35 6510 Other Property Expenses 38 6530 Network Operations Expense 39 6531 Power Expense 40 6533 Testing Expense 41 6534 Plant Operations Expense 42 6535 Engineering Expense 43 6540 Access Expense 44 6551 Depreciation - Felecomm. Plant in Service 45 6562 Depreciation - Frop. for Future Telecon. Use 46 6563 Amortization Expense - Intangible 47 6564 Amortization - Other 48 6610 Marketing 50 6613 Product Management 51 6613 Product Management 52 6621 Call Completion Services 6621 Call Completion Services 6621 Call Completion Services 56 6721 Flanting 56 6721 Human Relations 60 6722 Human Relations 61 6724 Information Management 62 6724 Information Management 63 6724 Information Management 64 6727 Research and Development 65 6729 Legal 6720 Procu | 35 | | Conduit Systems Expense | | | | | | |
| * 6530 > 6531 > 6533 > 6534 > 6534 > 6535 > 6540 6561 6561 > 6610 > 6610 > 6611 > 6612 > 6612 6622 6623 6623 6721 6722 6724 6724 6725 6726 6727 6726 6727 6727 6726 6727 6727 6726 6727 6727 6727 6727 6728 6727 6726 6727 6727 6728 6727 6727 6728 6727 6727 6727 6727 6728 6727 6727 6727 6728 6728 6728 6728 6728 6729 6729 6729 6720 6720 | 37 * 6530 Network Operations Expense 39 ^ 6531 Power Expense 40 ^ 6533 Testing Expense 41 ^ 6534 Plant Operations Expense 42 ^ 6534 Pant Operations Expense 43 6561 Depreciation - Frop. for Future Telecom. Use 45 6562 Amortization Expense - Tangible 46 6563 Amortization Expense - Intangible 46 6564 Amortization - Other 48 6610 Marketing 50 6611 Sales Amortization Services 56 51 6612 Sales 52 Castomer Services 53 6612 Castomer Services 54 6721 Product Management 55 6721 Product Management 54 6721 Promining and Finance 55 6721 Promining and Finance 60 6722 Human Relations 60 6724 Information Management | 36 | 6510 | Other Property Expenses | | | | | | |
| 6531 6532 6533 6534 6540 6541 6561 6562 6612 6622 6623 6623 6712 6724 6725 6726 6727 6728 6720 6721 6722 6723 6724 6726 6727 6728 6720 6721 6722 6724 6725 6726 6726 6727 6728 6728 6720 6730 6730<td>38 ^ 6531 Power Expense 99 ^ 6532 Network Administration Expense 40 ^ 6533 Testing Expense 41 ^ 6534 Plant Operations Expense 42 ^ 6535 Engineering Expense 43 ^ 6540 Access Expense 44 6551 Depreciation - Teleconm. Plant in Service 45 6562 Depreciation - Teleconm. Use 46 6563 Amortization Expense - Intangible 47 6563 Amortization - Other 48 * 6610 Marketing 50 * 6611 Product Management 51 * 6612 Product Advertising 52 * 6611 Product Advertising 53 * 6621 Product Advertising 54 6622 Number Services 55 6621 Number Services 56 6712 Planning 56 6712 Planning and Finance 57 6724 Information Management 66</td><th>37</th><td></td><td>Network Operations Expense</td><td></td><td></td><td></td><td></td><td></td><td></td> | 38 ^ 6531 Power Expense 99 ^ 6532 Network Administration Expense 40 ^ 6533 Testing Expense 41 ^ 6534 Plant Operations Expense 42 ^ 6535 Engineering Expense 43 ^ 6540 Access Expense 44 6551 Depreciation - Teleconm. Plant in Service 45 6562 Depreciation - Teleconm. Use 46 6563 Amortization Expense - Intangible 47 6563 Amortization - Other 48 * 6610 Marketing 50 * 6611 Product Management 51 * 6612 Product Advertising 52 * 6611 Product Advertising 53 * 6621 Product Advertising 54 6622 Number Services 55 6621 Number Services 56 6712 Planning 56 6712 Planning and Finance 57 6724 Information Management 66 | 37 | | Network Operations Expense | | | | | | |
| 6532 6533 6534 6540 6540 6561 6562 6563 6610 6611 6612 6613 6621 6622 6623 6712 6724 6725 6726 6727 6728 6728 6720 6720 6721 6722 6724 6725 6726 6727 6728 6728 6720 6720 6720 6721 6722 6723 6724 6726 6727 6728 6728 | 39 ^ 6532 Network Administration Bxpense 40 ^ 6533 Testing Expense 41 ^ 6534 Plant Operations Expense 42 - 6535 Engineering Expense 43 - 6540 Access Expense 44 - 6561 Depreciation - Telecorm. Plant in Service 45 - 6561 Depreciation - For Puture Telecorn. Use 47 - 6563 Amortization Expense - Intangible 48 - 6661 Product Management 50 - 6611 Product Management 51 - 6612 Product Advertising 52 - 6613 Product Advertising 52 - 6614 Product Advertising 52 - 6612 Sales 53 - 6612 Sales 54 - 6621 Sales 6621 Customer Services 56 6721 Brauning 663 6721 Brauning 663 6724 Information Management 66 6725 Legal <th>38</th> <td></td> <td>Power Expense</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> | 38 | | Power Expense | | | | | | |
| 6533 6534 6535 6540 6561 6563 6563 6563 6611 6612 6613 6621 6623 6721 6724 6725 6726 6727 6728 6729 6720 6721 6722 6724 6725 6726 6727 6727 6728 6729 6720 6720 6721 6722 6723 6724 6725 6726 6727 6728 6728 6728 6728 | 40 ^ 6533 Testing Expense 41 ^ 6534 Plant Operations Expense 42 ^ 6535 Engineering Expense 43 6540 Access Expense 44 6551 Depreciation-Prop. for Future Telecom. Use 45 6552 Depreciation-Prop. for Future Telecom. Use 46 6553 Amortization Expense - Intangible 47 6564 Amortization Expense - Intangible 48 6565 Amortization - Other 49 * 6610 Marketing 50 ^ 6611 Product Management 51 ^ 6612 Sales 51 ^ 6612 Sales 52 ^ 6613 Product Advertising 53 ^ 6621 Call Completion Services 54 6622 Number Services 55 6623 Customer Services 56 6712 External Relations 60 6724 Imman Relations 61 6724 Imman Relations 61 672 | 39 | | Network Administration Expense | | | | | | |
| 6534 6540 6540 6561 6562 6563 6563 6611 6611 6621 6621 6623 6721 6724 6725 6726 6727 6727 6728 6728 6729 6728 6720 6721 6722 6724 6725 6726 6727 6728 6728 6729 6720 6721 6722 6724 6725 6726 6727 6728 6728 | 41 ^ 6534 Plant Operations Expense 42 ^ 6535 Engineering Expense 43 6540 Decess Expense 44 6562 Depreciation - Teleconn. Plant in Service 45 6562 Depreciation - Teleconn. Use 46 6563 Amortization Expense - Tangible 47 6564 Amortization Expense - Tangible 48 6565 Amortization Expense - Intangible 49 * 6610 Marketing 50 Amortization Cother 51 * 6612 Product Management 52 * 6613 Product Advertising 53 * 6611 Product Advertising 53 * 6612 Product Advertising 54 * 6612 Number Services 55 * 6621 Call Completion Services 56 * 6721 Executive 57 * 6712 Planning 58 * 6721 Accounting and Finance 50 * 6722 Human Relations 61 * | 40 | | Testing Expense | | | | | | |
| 6535 6540 6561 6562 6563 6563 6564 6561 6563 6610 6611 6612 6621 6623 6623 6724 6724 6725 6726 6727 6726 6727 6726 6727 6728 6728 6729 6720 6721 6722 6724 6725 6726 6727 6728 6728 6720 6720 6720 6721 6722 6724 6725 6726 6727 6728 6728 | 42 6535 Engineering Expense 43 6561 Access Expense 45 6562 Depreciation-Prop. for Future Telecom. Use 45 6563 Amortization Expense - Intangible 47 6564 Amortization Expense - Intangible 48 6565 Amortization Expense - Intangible 49 6610 Marketing 50 Annotization - Other 51 Account Management 51 Account Management 51 Accounting and Finance 52 Customer Services 54 6612 6621 Customer Services 56 6711 Executive Services 56 6712 Planning Accounting and Finance 57 6712 Fluman Relations G722 6722 Human Relations 6723 Human Relations 6724 Information Management 6725 Legal 6724 Information Management | 41 | | Plant Operations Expense | | | | | | |
| 6540 6561 6563 6563 6564 6563 6561 6611 6611 6621 6621 6622 6623 6711 6722 6724 6724 6724 6725 6726 6726 6727 6728 | 43 6540 Access Expense 44 6561 Depreciation - Telecomm. Plant in Service 45 6562 Depreciation - Prop. for Future Telecom. Use 46 6563 Amortization Expense - Intangible 48 6565 Amortization Expense - Intangible 49 * 6610 Marketing 50 A 6611 Product Management 51 A 6612 Sales 52 A 6611 Product Management 53 A 6612 Product Advertising 54 6612 Product Advertising 55 A 6612 Number Services 56 A 6622 Number Services 56 A 671 Planning 57 6712 Planning 58 6721 Paccounting and Finance 59 6722 Human Relations 60 6723 Human Relations 61 6724 Information Management 62 Froeal 63 6728 Provision for Uncollectible | 42 | | Engineering Expense | | | | | | |
| 6561 1 6562 6563 6564 6565 6564 6561 6561 6611 6612 6612 6612 6623 6623 6623 6721 6722 6724 6725 6725 6726 | 44 6561 Depreciation - Telecomm. Plant in Service 45 6562 Depreciation-Prop. for Future Telecom. Use 46 6563 Amortization Expense - Tangible 48 6564 Amortization Expense - Intangible 49 * 6610 Marketing 50 ^ 6611 Product Management 51 ^ 6612 Sales 52 ^ 6613 Product Advertising 52 ^ 6614 Product Advertising 52 ^ 6617 Sales 53 ^ 6621 Number Services 54 6622 Number Services 55 6621 Planning 56 6721 Executive 57 6721 Executive 58 6721 Executive 6723 Human Relations Human Relations 60 6722 Executive ment 67 6724 Information Management 67 6724 Proconcement 67 6728 Quther General and Admin | 43 | 6540 | Access Expense | | | | | | |
| 6562 6563 6564 6564 6565 * 6610 \$ 6611 \$ 6611 \$ 6612 \$ 6621 6621 6622 6623 6712 6724 6724 6724 6725 6726 6726 6726 6727 6727 6727 6728 | 45 6562 Depreciation-Prop. for Future Telecom. Use 46 6563 Amortization Expense - Tangible 48 6564 Amortization Expense - Intangible 49 * 6510 Marketing 50 A mortization - Other 51 A folial Product Management 51 Sales 52 A folial Product Advertising 53 6621 Call Completion Services 54 6622 Number Services 55 6623 Number Services 56 6711 Excentive 56 6712 Planning 56 6711 Excentive 57 6722 Human Relations 60 6724 Information Management 60 6724 Information Management 62 6725 Procuement 63 6726 Procuement 64 6727 Research and Development 65 6728 Other General and Administrative 67 <th>44</th> <td>1959</td> <td>Depreciation - Telecomm. Plant in Service</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> | 44 | 1959 | Depreciation - Telecomm. Plant in Service | | | | | | |
| 6563 6564 6565 * 6610 > 6611 > 6612 > 6612 > 6621 6621 6622 6623 6721 6721 6722 6724 6724 6724 6726 6726 6726 6727 6728 | 46 6563 Amortization Expense - Tangible 47 6564 Amortization Expense - Intangible 48 6516 Marketing 50 A 6611 Product Management 51 A 6612 Sales 52 A 6613 Product Advertising 53 A 6613 Product Advertising 54 6621 Call Completion Services 55 6621 Call Completion Services 56 G711 Executive 57 G712 Planning 56 G711 Executive 57 G712 Planning 60 G721 Human Relations 60 G722 Human Relations 60 G724 Information Management 61 G726 Procurement 62 G726 Procurement 63 G726 Procurement 64 G727 Research and Development 65 G728 Other General and Administrative <td< td=""><th>45</th><td>6562</td><td>Depreciation-Prop. for Future Telecom. Use</td><td></td><td></td><td></td><td></td><td></td><td></td></td<> | 45 | 6562 | Depreciation-Prop. for Future Telecom. Use | | | | | | |
| # 6610 \$ 6611 \$ 6612 \$ 6612 \$ 6613 \$ 6623 \$ 6623 \$ 6623 \$ 6721 \$ 6722 \$ 6724 \$ 6724 \$ 6725 \$ 6725 \$ 6726 \$ 6727 \$ 6727 \$ 6726 \$ 6727 \$ 6727 \$ 6727 \$ 6726 \$ 6727 \$ 6728 \$ 6727 \$ 6728 \$ 6727 \$ 6727 \$ 6727 \$ 6727 \$ 6727 \$ 6727 \$ 6727 \$ 6728 \$ 6727 \$ 6727 \$ 6728 \$ 6728 \$ 6729 \$ 6729 \$ 6729 \$ 6727 \$ 6727 \$ 6728 \$ 6728 \$ 6729 \$ 6729 \$ 6729 \$ 6720 \$ 6720 | 47 6564 Amortization Expense - Intangible 48 6565 Amortization - Other 49 * 6610 Marketing 50 6611 Product Management 51 ^ 6612 Sales 52 ^ 6613 Product Advertising 53 ^ 6613 Product Advertising 54 6622 Number Services 55 6623 Customer Services 56 6711 Executive 57 6712 Planning 58 6721 Accounting and Finance 59 6721 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6724 Information Management 62 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 46 | 6563 | Amortization Expense - Tangible | | | | | | |
| * 6610 | 48 6565 Amortization - Other 49 * 6610 Marketing 50 ^ 6611 Product Management 51 ^ 6612 Sales 52 ^ 6613 Product Advertising 53 6621 Call Completion Services 54 6622 Number Services 55 6623 Unmber Services 56 6711 Excentive 57 6712 Planning and Finance 57 6712 External Relations 60 6723 Human Relations 60 6724 Information Management 62 6726 Procurement 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6720 Provision for Uncollectible Notes Receivable 66 6720 Provision for Uncollectible Notes Receivable | 47 | 6564 | Amortization Expense - Intangible | | | | | | |
| * 6610 > 6611 > 6612 > 6613 6621 6623 6623 6711 6711 6722 6724 6724 6725 6725 6726 6727 6727 6727 6727 6727 6727 6728 | 49 * 6610 Marketing 50 ^ 6611 Product Management 51 ^ 6612 Sales 52 ^ 6613 Product Advertising 52 ^ 6621 Call Completion Services 53 6622 Number Services 54 6622 Number Services 55 6623 Customer Services 56 6711 Executive 57 6712 Planning and Finance 58 6721 Accounting and Finance 59 6722 External Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6729 Provision for Uncollectible Notes Receivable 67 700 Provision for Uncollectible Notes Receivable | 48 | 6565 | Amortization - Other | | | | | | |
| 6611 6613 6613 6621 6621 6623 6711 6712 6724 6724 6725 6725 6726 6727 6726 6727 6726 6727 6728 6726 6727 6728 6728 6729 | 50 ^ 6611 Product Management 51 ^ 6612 Sales 52 ^ 6613 Product Advertising 53 6621 Call Completion Services 54 6622 Number Services 55 6623 Customer Services 56 6711 Executive 57 6712 Planning 58 6721 External Relations 60 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 External Relations 60 6724 Freearch and Development 62 6725 Procurement 64 6726 Procurement 65 6728 Cuter General and Administrative 65 6729 Provision for Uncollectible Notes Receivable 66 6790 Provision for Uncollectible Notes Receivable | 49 | | Marketing | | | | | | |
| 6612 6621 6622 6623 6711 6721 6721 6724 6724 6725 6726 6727 6728 6728 6728 6728 6728 6728 6728 6729 | 51 ^ 6612 Sales 52 ^ 6613 Product Advertising 53 6621 Call Completion Services 54 6622 Number Services 55 6623 Customer Services 56 6711 Executive 57 6712 Planning 58 6721 Accounting and Finance 59 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 50 | | Product Management | | | | | | |
| 6613 6621 6622 6623 6711 6712 6721 6723 6724 6724 6725 6726 6726 6727 6728 | 52 ^ 6613 Product Advertising 53 6621 Call Completion Services 54 6622 Number Services 55 6623 Customer Services 56 6711 Executive 57 6712 Planning 58 6721 Accounting and Finance 59 6721 Accounting and Finance 50 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6720 Provision for Uncollectible Notes Receivable 67 Forbals | 51 | | Sales | - | | | | | |
| 6621 6623 6623 6711 6712 6721 6723 6724 6724 6725 6726 6726 6727 | 53 6621 Call Completion Services 54 6622 Number Services 55 6623 Customer Services 56 6711 Executive 57 6712 Planning 58 6721 Accounting and Finance 59 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6720 Provision for Uncollectible Notes Receivable 67 Totals | 52 | | Product Advertising | | | | | | |
| 6622 6623 6711 6712 6721 6721 6723 6724 6723 6724 6725 6726 6726 | 54 6622 Number Services 55 6623 Customer Services 56 6711 Executive 57 6712 Planning 58 6721 Accounting and Finance 59 6721 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 53 | 6621 | Call Completion Services | | | | | | |
| 6623 6711 6712 6721 6721 6724 6724 6725 6726 6726 6727 | 55 6623 Customer Services 56 6711 Executive 57 6712 Planning 58 6721 Accounting and Finance 59 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 54 | 6622 | Number Services | | | | | | |
| 6711 6721 6721 6722 6723 6724 6724 6725 6726 6726 6726 | 56 6711 Executive 57 6712 Planning 58 6721 Accounting and Finance 59 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 64 6727 Research and Administrative 65 6728 Other General and Administrative 65 6720 Provision for Uncollectible Notes Receivable 67 Totals | 55 | 6623 | Customer Services | | | | | | |
| 6712 6721 6722 6723 6724 6725 6725 6726 6726 | 57 6712 Planning 58 6721 Accounting and Finance 59 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 65 6720 Provision for Uncollectible Notes Receivable 67 Totals | 99 | 6711 | Executive | | | | | | |
| 6721 6722 6723 6724 6725 6725 6726 6727 | 58 6721 Accounting and Finance 59 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 65 6790 Provision for Uncollectible Notes Receivable 67 Totals | 57 | 6712 | Planning | | | | | | |
| 6722 6723 6724 6724 6725 6726 6720 | 59 6722 External Relations 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 65 6790 Provision for Uncollectible Notes Receivable 67 Totals | 28 | 6721 | Accounting and Finance | | | | | | |
| 6723 6724 6725 6725 6726 6727 6790 | 60 6723 Human Relations 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 59 | 6722 | External Relations | | | | | | |
| 6724 6725 6726 6727 6727 6728 | 61 6724 Information Management 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 09 | 6723 | Human Relations | | | | | | |
| 6725 6726 6727 6728 6790 | 62 6725 Legal 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 61 | 6724 | Information Management | - | | | | | |
| 6726 6727 6728 6790 | 63 6726 Procurement 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 62 | 6725 | Legal | | | | | | |
| 6727 6728 6790 | 64 6727 Research and Development 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 63 | 6726 | Procurement | | | | | | |
| 6728 | 65 6728 Other General and Administrative 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 64 | 6727 | Research and Development | | | | | | |
| 0629 | 66 6790 Provision for Uncollectible Notes Receivable 67 Totals | 65 | 6728 | Other General and Administrative | | | | | | |
| | 67 Totals | 99 | 0629 | Provision for Uncollectible Notes Receivable | | | | | | |
| | 1 | 29 | | Totals | | | | | | |

Pension Costs

| | Pension Costs | | Ĭ. | Tear: 2008 |
|----|---|-----------------------|-----------|------------|
| 1 | Plan Name National Telephone Cooperative Retirement | & Security | | |
| 2 | Defined Benefit Plan?YES | Defined Contribution | Plan? | |
| 3 | Actuarial Cost Method? | IRS Code: | ·- | |
| | Actuarial Cost Method?104,221 | _ls the Plan Over Fur | nded? | _ |
| 5 | | | Last Van | 10/ Ob |
| | Item Change in Benefit Obligation | Current Year | Last Year | % Change |
| | Benefit obligation at beginning of year | | | 1 |
| | Service cost | | | |
| | Interest Cost | | | |
| | Plan participants' contributions | | | |
| | Amendments | | | |
| 12 | Actuarial Gain | | | |
| 13 | Acquisition | | | |
| 14 | Benefits paid | | | |
| 15 | Benefit obligation at end of year | | | |
| 16 | Change in Plan Assets | | | |
| | Fair value of plan assets at beginning of year | | | |
| | Actual return on plan assets | | | |
| | Acquisition | | | İ |
| | Employer contribution | | | |
| | Plan participants' contributions | | | |
| | Benefits paid | | | _ |
| | Fair value of plan assets at end of year Funded Status | | | |
| | Unrecognized net actuarial loss | | | |
| | Unrecognized prior service cost | | | İ |
| | Prepaid (accrued) benefit cost | | | - |
| 28 | | | | |
| | Weighted-average Assumptions as of Year End | | | |
| | Discount rate | | | |
| | Expected return on plan assets | | | |
| | Rate of compensation increase | | | |
| 33 | | | | |
| 34 | Components of Net Periodic Benefit Costs | | | |
| 35 | Service cost | | | |
| 36 | Interest cost | | | |
| | Expected return on plan assets | | | |
| | Amortization of prior service cost | | | |
| | Recognized net actuarial loss | | | |
| | Net periodic benefit cost | | | |
| 41 | | | | |
| | Montana Intrastate Costs: | | | |
| 43 | | | | |
| 44 | <u> </u> | | | |
| 45 | Accumulated Pension Asset (Liability) at Year End Number of Company Employees: | | | |
| 47 | | | | |
| 48 | l | | | |
| 49 | · | | | |
| 50 | | | | |
| 51 | · | | | |

Page 1of 2

Other Post Employment Benefits (OPEBS)

Year: 2008 Current Year Last Year % Change 1 Regulatory Treatment: Commission authorized - most recent 3 Docket number: 4 Order number: 5 Amount recovered through rates 6 Weighted-average Assumptions as of Year End 7 Discount rate 8 Expected return on plan assets N/A N/A 9 Medical Cost Inflation Rate 10 Actuarial Cost Method 11 Rate of compensation increase 12 List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged: 13 14 15 Describe any Changes to the Benefit Plan: 16 17 TOTAL COMPANY 18 Change in Benefit Obligation 19 Benefit obligation at beginning of year 20 Service cost 21 Interest Cost 22 Plan participants' contributions 23 Amendments 24 Actuarial Gain 25 Acquisition 26 Benefits paid 27 Benefit obligation at end of year 28 Change in Plan Assets 29 Fair value of plan assets at beginning of year 30 Actual return on plan assets 31 Acquisition 32 Employer contribution 33 Plan participants' contributions 34 Benefits paid 35 Fair value of plan assets at end of year 36 Funded Status 37 Unrecognized net actuarial loss 38 Unrecognized prior service cost 39 Prepaid (accrued) benefit cost 40 Components of Net Periodic Benefit Costs 41 Service cost 42 Interest cost 43 Expected return on plan assets #VALUE! #VALUE! 44 Amortization of prior service cost 45 Recognized net actuarial loss 46 Net periodic benefit cost #VALUE! **#VALUE!** 47 Accumulated Post Retirement Benefit Obligation 48 Amount Funded through VEBA 49 Amount Funded through 401(h) 50 Amount Funded through Other __ 51 TOTAL Amount that was tax deductible - VEBA 53 Amount that was tax deductible - 401(h) 54 Amount that was tax deductible - Other 55 TOTAL

Year: 2008

Page 2 of 2

Other Post Employment Benefits (OPEBS) Continued

Current Year % Change Last Year 1 Number of Company Employees: 2 Covered by the Plan 3 Not Covered by the Plan 4 Active 5 Retired 6 Spouses/Dependants covered by the Plan Montana 8 Change in Benefit Obligation 9 Benefit obligation at beginning of year 10 Service cost 11 Interest Cost 12 Plan participants' contributions 13 Amendments 14 Actuarial Gain 15 Acquisition 16 Benefits paid 17 Benefit obligation at end of year 18 Change in Plan Assets 19 Fair value of plan assets at beginning of year 20 Actual return on plan assets 21 Acquisition 22 Employer contribution 23 Plan participants' contributions 24 Benefits paid 25 Fair value of plan assets at end of year 26 Funded Status 27 Unrecognized net actuarial loss 28 Unrecognized prior service cost 29 Prepaid (accrued) benefit cost 30 Components of Net Periodic Benefit Cccosts 31 Service cost 32 Interest cost #VALUE! 33 Expected return on plan assets **#VALUE!** 34 Amortization of prior service cost 35 Recognized net actuarial loss **#VALUE! #VALUE!** 36 Net periodic benefit cost 37 Accumulated Post Retirement Benefit Obligation 38 Amount Funded through VEBA 39 Amount Funded through 401(h) 40 Amount Funded through other 41 TOTAL 42 Amount that was tax deductible - VEBA Amount that was tax deductible - 401(h) 43 Amount that was tax deductible - Other 44 TOTAL 45 46 Montana Intrastate Costs: 47 Pension Costs Pension Costs Capitalized 48 Accumulated Pension Asset (Liability) at Year End 49 50 Number of Montana Employees: Covered by the Plan 51 Not Covered by the Plan 52 53 Active 54 Retired Spouses/Dependants covered by the Plan

Page 1 of Year: 2008

Payments for Services to Persons Other Than Employees

| - | | 5 to I CI Sons Other Than | | | Jul. 2000 |
|------|----------------|---------------------------|---------|------------|------------|
| | | | Total | Total | |
| 7 | Name of | Nature of | Company | State | Intrastate |
| Line | Recipient | Service | Cost | Cost | Cost |
| No. | (a) | (b) | (c) | (d) | (e) |
| 1 | | | | ` <u>`</u> | |
| 2 | | | | | |
| 2 3 | 3T / A / 11 | | | | |
| 3 | Not Applicable | | | | |
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| 47 | | | | 1 | |
| 48 | | | | | |
| 49 | Total | | 1 | | |

Company Name: Southern Montana Telephone Company

Subscriber Line Usage Data

| Line | | This | % of | Last |
|------|------------------------|---------|---------|------|
| | Description | Year | Total | Year |
| No. | (a) | (b) | (c) | (d) |
| 1 | Toll Usage: | | | |
| 2 | Interstate, InterLATA | 482240 | 14.79% | |
| 3 | Interstate, IntraLATA | | | |
| | • | | | |
| 4 | Total Interstate Usage | 482240 | 14.79% | |
| | | | | |
| 5 | Intrastate, InterLATA | | : | |
| 6 | Intrastate, IntraLATA | 2779443 | 85.21% | |
| | , | | | |
| 7 | Total Intrastate Usage | 2779443 | 85.21% | |
| | | | | |
| 8 | Total Toll Usage | 3261683 | 100.00% | |
| 9 | Centrex | | | |
| 10 | Local | | | |
| 11 | Total Minutes | 3261683 | 100.00왕 | |

Page 1 of

Company Name: Southern Montana Telephone Company

| 300% | Total | Access | Lines (n) | 95 90 311 246 273 | 1015 PAGE 27 |
|-----------------------------------|-------------|---------------------|------------------|--|-------------------------|
| Year: 2008 | Jo % | Lines w/ | T. Tone (m) | | |
| | | | Other (1) | | |
| | Company | Owned | Coin (K) | | 9 |
| | Customer | Owned | Coin | | |
| stics | Multi- | Line | Business (i) | | 27 |
| ne Stati | Single | Line | Business (h) | | 161 |
| ccess Li | Residential | LMS | Customers (g) | | |
| Office and Access Line Statistics | | | Customers (f) | True could brown | 4 |
| | | ADSL | (e) | | o do i do i do |
| Cental | | ISDN | (p) | | 2 mar (2) m (2) |
| | | Type of Residential | (0) | | 821 |
| | | Type of | Office (b) | Digital Digital Digital Digital Digital | 1 |
| | | | Wire Center (a) | Divide Grant Jackson Wise River | 33 Total 821 821 |
| | - | Line | No. | | 33 |

Page 1 of Year: 2008

Central Office and Switch Information

| | | iai Office and Sw. | TUCH IIIIUI | 11111111111 | | J. 47 200 | 2000 |
|----------|-------------|--------------------|-------------|--------------|--------|-----------|----------|
| | | Office | | | | | |
| | | Configuration | | Switch | | Switch | |
| Line | | (Host, Remote, | Type of | Vendor/ | Switch | Line | Year |
| No. | Wire Center | Stand alone) | Switch | Manufacturer | 1 | Capacity | Deployed |
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| 1 | 406-267 | Remote | Digital | Nortel | DMS-10 | 512 | 1990 |
| 2 | 406-832 | Remote | Digital | Nortel | DMS-10 | 512 | 1983 |
| 3 | 406-689-S | Remote | Digital | Nortel | DMS-10 | 512 | 1983 |
| 4 | 406-689 | Host | Digital | Nortel | DMS-10 | 640 | 1983 |
| 5 | 406-834-J | Remote | Digital | Nortei | DMS-10 | 512 | 1983 |
| 6 | 406-834-T | Remote | Digital | Nortel | DMS-10 | 512 | 1983 |
| 7 | 406-681 | Remote | Digital | Nortei | DMS-10 | 512 | 1983 |
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NOTE: Additional blank schedules are being provided for your convenience.

Construction Budget - Montana

Year:

| . . | | |
|------------|--|---------|
| Line | Description | |
| No. | (a) | (b) |
| 1 | Central Office Assets: | |
| 2 | | |
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| 26 | | |
| 27 | Total Switching and Central Office Projects over \$500,000 | |
| 28 | Miscellaneous Central Office Projects not over \$500,000 | |
| 29 | Total Central Office Budget (Total of Line 27 & Line 28) | |
| 30 | Other Projects over \$500,000: | |
| 31 | | |
| 32 | Outside Plant Construction & Engineering | 750000 |
| 33 | Transport Engineering/ Subscriber Electronics | 350000 |
| 34 | | |
| 35 | | |
| 36 | | |
| 37 | | |
| 38 | | |
| 39 | | |
| 40 | 0.700.000 | 1100000 |
| 41 | Total Other Projects over \$500,000 | 100000 |
| 42 | Miscellaneous projects not over \$500,000 | 1200000 |
| 43 | Total Construction Budget (Total of Lines 29, 41 & 42) | 1200000 |

Montana Total State Construction Expenditures

| | FCC | | | | Percent |
|------|--|----------------------------------|-----------|-----------|---------|
| Line | Part 32 Account No. | Description | This Year | Last Year | Change |
| No. | (a) | (b) | (e) | (d) | (e) |
| 1 | 2110 | General Support Assets | 44399 | | |
| 2 | 2210 | Central Office Assets | 72139 | | |
| 3 | 2220 | Operator Systems | 0 | | |
| 4 | 2230 | Central Office Transmission | 272147 | | |
| 5 | 2310 | Information/Termination Assets | 0 | | |
| 6 | 2410 | Cable and Wire Facilities Assets | 926067 | | |
| 7 | 2680 | Amortizable Tangible Assets | 0 | | |
| 8 | 2690 | Intangibles | 0 | | |
| 9 | ······································ | Total Construction Expenditures | 1314752 | | |

| | Montana Employee Counts | | Year: 2008 |
|----------|------------------------------------|-----------|-------------|
| Line | | Beginning | End |
| No. | Category | of Year | of Year |
| | (a) | (b) | (c) |
| | Executive | 2 3 | 2 3 3 |
| | Oiffice | | 31 |
| | Outside Plant-COE | 2 | 3 |
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| 41 | | | |
| 42 | Totals (Sym of Lines 1 through 42) | 7 | 0 |
| 43 | Totals (Sum of Lines 1 through 42) | / | 8 |

| Base Other Total Compensation Total | | Compensati | on of Top | 10 Mont | ana Based | Employees | Y | ear: 2008 |
|--|----|------------------------------|------------------|---------|--|--------------|---------------------------|-------------------------------------|
| Filed under Separate Cover This information is propreitary and is filed under Protective Order 5 6 7 8 9 | | l . | Salary | | Compensation | Compensation | Compensation Last Year | % Increase Total Compensation |
| Filed under Separate Cover This information is propreitary and is filed under Protective Order 6 7 8 9 | | (a) | (b) | (c) | (d) | (e) | (t) | (g) |
| Filed under Separate Cover This information is propreitary and is filed under Protective Order Filed under Separate Cover This information is propreitary and is filed under Protective Order 8 9 | 1 | | | | | | | |
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| 11 Totals (Sum L.1 to L.10) | 11 | Takala (Samu I 14- I 10) | | | | | | |

Year: 2008

Compensation of Top 5 Corporate Employees - SEC Information

| | Compensation of 10 | h o carho | rate ring | makers - m | CAC TITLE AND | | |
|------|-------------------------|-----------|-----------|--------------|---------------|--------------|--------------|
| | | | | | | Total | % Increase |
| 1 | | Base | | Other | Total | Compensation | Total |
| Line | Name/Title | Salary | Bonuses | Compensation | | Last Year | Compensation |
| No. | Name/The | | | Compensation | Compensation | | |
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| 6 | Totals (Sum L.1 to L.5) | | | 1 | | <u> </u> | İ |

Year: 2008

Montana Composite Statistics

| | | Multana Composite Statistics | 1041.2000 |
|------|-------------|---|-----------|
| Line | Account | | |
| i I | No. | Description | Amount |
| No. | | (a) | (b) |
| 1 | | Plant (Intrastate Only) (000 Omitted) | |
| | | | |
| 2 | 2001 | Plant in Service | |
| 3 | 2003 - 2004 | Construction Work in Progress | |
| 4 | 2005 | Plant Acquisition Adjustments | |
| 5 | 2002 | Plant Held for Future Use | |
| 6 | 1220 | Materials & Supplies | N/A |
| 7 | 1220 | (Less): | |
| 8 | 3100 - 3400 | Depreciation & Amortization Reserves | |
| 9 | 4360.2 | Contributions in Aid of Construction | |
| | 4500.2 | Controductors in Aid of Constitution | |
| 10 | | NET BOOK COSTS | |
| 10 | | NEI BOOK COSIS | |
| 11 | | Revenues & Expenses (Intrastate Only) (000 Omitted) | |
| * * | | revenues of Expenses (merusane emp) (000 emisseu) | 1 |
| 12 | 5000 - 5300 | Operating Revenues | |
| | 5000 5500 | opauling 110 (1100) | |
| 13 | 6560 | Depreciation & Amortization Expenses | |
| 14 | 0000 | Federal & State Income Taxes | |
| 15 | | Other Taxes | |
| 16 | | Other Operating Expenses | |
| 17 | | TOTAL Operating Expenses | |
| 1 | | 2011 | |
| 18 | | Net Operating Income | |
| | | | |
| 19 | | Other Income | |
| 20 | | Other Deductions | |
| | | | |
| 21 | | NET INCOME | |
| | | | |
| 22 | | Access Lines in Service (Intrastate Only) | |
| | | | |
| 23 | | Residential Access Lines | |
| 24 | | Business Access Lines | |
| 25 | | PBX Access Lines | |
| 26 | | Other Access Lines | |
| 27 | | Total Number of Access Lines | |
| • | | | |
| 28 | | Average Number of Calls Per Access Line | |
| 20 | | Local Calls | |
| 29 | | Local Calls Toll Calls (Intra- or Interstate) | |
| 30 | | Total Number of Calls Per Access Line | |
| 31 | | (Total of Line 29 & Line 30 divided by Line 27) | |
| 32 | | Other Statistics (Intrastate Only) | |
| ےد | | Omer seamers (merasease omy) | |
| 33 | | Average Residential Monthly Bill | |
| 34 | | Gross Plant Investment per Access Line | |
| | | 2,000 ranto mi somioni par resesso Mina | |
| | | 1 | |

| | | Depreciation - Montana Intrasta | te Regulated | Year: 2008 |
|------|--------|--|------------------------------|------------------|
| | | | Composite | Total |
| ļ. | Acct | Description | Rate | Expense |
| Line | No. | <u>k</u> | % | \$ |
| No. | (a) | (b) | (c) | (d) |
| 1 | 2112 | Motor Vehicles | 33.0% | |
| 2 | 2114 | Special Purpose Vehicles | | |
| 3 | 2115 | Garage Work Equipment | | |
| 4 | 2116 | Other work Equipment | 13.4% | |
| 5 | 2121 | Buildings | 4.2% | 26,914 |
| 6 | 2122 | Furniture | | |
| 7 | 2123.1 | Office Support Equipment | 11.7% | 3,061 |
| 8 | 2123.2 | Company Communications Equipment | 9.3% | |
| 9 | 2124 | General Purpose Computers | 20.0% | 6,451 |
| 10 | 2211 | Analog Electronic Switching Equipment | | |
| 11 | 2212 | Digital Electronic Switching Equipment | 10.0% | 279,366 |
| 12 | 2215 | Step By Step Switching Equipment | | |
| 13 | 2215 | Crossbar Switching Equipment | · | |
| . 14 | 2220 | Operator System | | |
| 15 | 2231 | Radio Systems | | |
| 16 | 2232 | Circuit DDS | | |
| ,17 | 2232 | Circuit Digital | | |
| 18 | 2232 | Circuit Analog | | |
| 19 | 2351 | Public Telephone Terminating Equipment | | |
| 20 | 2362 | Other Terminal Equipment | | |
| 21 | 2411 | Poles | | |
| 22 | 2421 | Aerial Cable Metallic | | |
| 23 | 2421 | Aerial Cable Nonmetallic | | |
| 24 | 2422 | Underground Cable Metallic | | |
| 25 | 2422 | Underground Cable Nonmetallic | 1 | |
| 26 | 2423 | Buried Cable Metallic | 5.0% | 205,937 |
| 27 | 2423 | Buried Cable Nonmetallic | 5.0% | 154,483 |
| 28 | 2424 | Submarine Cable Metallic | | |
| 29 | 2424 | Submarine Cable Nonmetallic | | |
| 30 | 2426 | Intrabuilding Network Cable Metallic | | |
| 31 | 2426 | Intrabuilding Network Cable Nonmetallic | | |
| 32 | 2431 | Aerial Wire | 5.0% | 1,669 |
| 33 | 2441 | Conduit Systems | | |
| 34 | | | <u> </u> | |
| 35 | | COMPOSITE TOTAL | | 677,881 |
| 36 | | | | |
| 37 | Pleas | e list the Montana Public Service Commssion Docket | Order No. approving these de | preciation rates |
| 38 | | | | |
| 39 | | Docket NumberOrder N | lumber | • |
| 40 | | | | |

| | | Amortization - Montana Intrastate | Regulated | Year: 2008 |
|------|-------------|--|----------------------|--|
| | | | Composite | Total |
| | Acct | Description | Rate | Expense |
| Line | No. | 1 | % | \$ |
| No. | (a) | (b) | (c) | (d) |
| 1 | (u) | | (-) | \-/ |
| , , | | 1 | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | N/A | | |
| 6 | | IVA | | |
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| 30 | | | | |
| 31 | | | | |
| 32 | | | | |
| 33 | | | | |
| 34 | | | | |
| 35 | | COMPOSITE TOTAL | | 1 · 1 · 1 · 1 · 1 · 1 · 1 · 1 · 1 · 1 · |
| 36 | | COME COME TO THE | | Note that they seems the second the second s |
| 37 | Please li | st the Montana Public Service Commission Docket Orde | r No. approving thes | e amortization rates |
| 38 | I ADMINE II | | | |
| 39 | | Docket Number Order No | umber | |
| 40 | | | | |
| | | | | DAGE 340 |

Montana Regulatory Capital Structure & Costs Year: 2008

| Line No. | Description | % Cap. Str. | % Cost Rate | Weighted Cost |
|-------------|-----------------------------------|-------------|-------------|------------------|
| 110. | (a) | (b) | (c) | (d) |
| | Commission Accepted - Most Recent | | | |
| 1 | Docket Number | | | |
| 2 | Order Number | | | |
| 3 | | | | |
| 4 | Common Equity | | | |
| | Preferred Stock | | | |
| 6 | Long Term Debt | | | |
| 7 | Other | | | |
| 8 | Total | | | |
| 9 | | | | |
| 10 | Actual at Year End | | | |
| 11 | | | | |
| 12 | Common Equity | | | |
| 1 | Preferred Stock | | | |
| 4 | Long Term Debt | | • | |
| | Other | | | |
| 16 | Total | | | |

Company Name: Southern Mont:

SCHEDULE 32

Year: 2008

Network Access - Charges and Revenues

| | 1100110111110000 01101500 01101 110 | | 1 002 1 11 0 0 0 |
|------|-------------------------------------|-------------------|--------------------|
| | | Access Charges | Access Revenues |
| Line | Description | Paid | Received |
| No. | (a) | (b) | (c) |
| i i | Montana - Total State | | 463222 |
| 2 | | | 462200 |
| | Montana - Intrastate | | 463222 |
| 4 | Mantana Tutostata Deciletad | | 463222 |
| 6 | Montana - Intrastate Regulated | | 403222 |
| 7 | | | |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | | | |
| 13 | | | |

Company Name: Southern Montana Telephone Company

| | | Affiliate Transactions - Pr | ransactions - Products & Services Provided to Utility | rovided to | Utility | Year: 2008 |
|--------------------|------------------------------|---|---|------------------------------|-----------------------------------|---------------------------------|
| Line No. | Affiliate Name (a) | Products & Services (b) | Method to Determine Price (c) | Charges to Utility (d) | % Total Afřil. Revenues (e) | Charges to MT Utility (f) |
| 1 2 8 4 8 9 1 | National Information Systems | Computer Service Bureau-Accounting support Custoemer Billing, Plant, Software Support CABS Billing | Varies | | | 686*86 |
| 8 9 10 11 | GVNW, Inc. | Management Consultantx Cost Studies Seperations | Hourly Rate | | | 90,386 |
| 10 | Moss-Adams | Audit, Management Consultants | Hourly rate | | | 17,815 |
| 30 | TOTAL | | | | | \$207,190 |

Company Name: Southern Montana Telephone Company

SCHEDULE 34

| Year: 2008 | Charges to MT Utility (f) | |
|--|-----------------------------------|-------|
| ty | % Total Affil. Revenues (e) | |
| ovided by Utili | Charges to Affiliate (d) | |
| Affiliate Transactions - Products & Services Provided by Utility | Method to Determine Price (c) | |
| Affiliate Transactions - | Products & Services (b) | |
| | Affiliate Name (a) | TOTAL |
| | Line No. | 30 |

Montana Intrastate Regulated Earned Rate of Return Year: 2008

| | Montana intrastate Kegulateo Larneo K | att of istrain | | 681. ZUUO |
|------|---|----------------|------|-----------|
| | Description | This | Last | Percent |
| Line | Rate Base | Year | Year | Change |
| No. | | 1 | | 1 - [|
| | (a) | (b) | (c) | (d) |
| 1 | | | | |
| 2 | 2001 Plant in Service | | | } |
| 3 | 2002 Prop. Held for Future Telecommunications Use | | | |
| 4 | 3100-3200 (Less) Accumulated Depreciation | | | |
| 5 | - | | |] |
| i . | Fight in Service | | | |
| 6 | | | | |
| 7 | | | | } |
| 8 | 1220 Materials & Supplies | | | |
| 9 | 1280 Prepayments | | | |
| 10 | Other Additions | | | |
| 11 | TOTAL Additions | | | |
| 12 | | | | |
| 13 | Deductions | | | |
| ì | | | | |
| 14 | , <u> </u> | | | |
| 15 | | | |] |
| 16 | , | | | |
| 17 | Customer Advances for Construction | | | |
| 18 | Other Deductions | | | |
| 19 | | | | |
| 20 | | | | |
| 21 | | | | |
| 22 | Net Earnings | | | |
| 23 | I ==================================== | | | |
| 1 | | | | |
| 24 | | | | |
| 25 | | | | |
| 26 | Rate of Return on Average Equity | | | ļ |
| 27 | | | | |
| 28 | Major Normalizing Adjustments & Commission | | | |
| 29 | Ratemaking adjustments to Utility Operations | | | |
| 30 | | | | |
| 31 | | | | |
| 32 | | i i | | |
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| 33 | | | | |
| 34 | | | | |
| 35 | | | | |
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| 37 | | | | |
| 38 | i | | | |
| 39 | 1 | | | |
| 40 | 1 | | | |
| 1 | | 1 | | |
| 41 | 1 | | | - |
| 42 | | | | |
| 43 | | | | <u> </u> |
| 44 | | | | |
| 45 | Adjusted Rate of Return on Average Equity | | | 1 |

| | Other Taxes Paid | | Year: 2008 |
|------|---|-----------|------------|
| Line | Description | Last Year | This Year |
| No. | (a) | (b) | (c) |
| 1 | Montana Telephone Company License Tax | | 572 |
| 2 | Montana Public Service Commission Tax | | 2077 |
| 3 | Montana Consumer Counsel Tax | | 938 |
| 4 | 911 Emergency Telephone Fee | | |
| 5 | Montana Telecommunications Access Service (TDD) | | |
| 6 | Montana Corporate License Tax | | |
| 7 | Personal Property Tax | | |
| 8 | Real Property Tax | | 59772 |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | Total | | 63359 |

SCHEDULE 37

| | Universal Service Fund | Year: 2008 | |
|------|-------------------------------------|------------|-----------|
| Line | Description | Last Year | This Year |
| No. | (a) | (b) | (c) |
| 13 | Funds received from Montana Sources | | |
| 14 | Funds received from Federal Sources | | 498063 |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | Total | | 498063 |

Financial Statements

Financial Statements

Years Ended December 31, 2008 and 2007

Table of Contents

| | Page |
|---|------|
| Independent Auditors' Report | 1 |
| Financial Statements: | |
| Balance Sheets | 2 |
| Statements of Income | 3 |
| Statements of Changes in Stockholders' Equity | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6 |



ALASKA I CALIFORNIA I ORFGON I INDIA

SALEM 680 Hawthorne Avenue SE, #140, Salem, OR 97301-0041 phone 503.585.7774 fax 503.364.8405

INDEPENDENT AUDITORS' REPORT

To the Board of Directors Southern Montana Telephone Company Wisdom, Montana

We have audited the accompanying balance sheets of Southern Montana Telephone Company (the Company) as of December 31, 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Southern Montana Telephone Company, as of December 31, 2007, were audited by other auditors, whose report dated March 18, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Montana Telephone Company as of December 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 22, 2009 on our consideration of Southern Montana Telephone Company's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That reporting is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

AKTLLP

Salem, Oregon April 22, 2009

Balance Sheets

December 31, 2008 and 2007

| ASSETS | | 2008 | | 2007 |
|---|------|------------|-----|-------------------------|
| Current Assets: | - | | • | |
| Cash and cash equivalents | \$ | 1,806,514 | \$ | 1,889,500 |
| Marketable securities | | _ | | 40,000 |
| Accounts receivable, less allowance for doubtful | | | | |
| accounts of \$16,057 (\$20,266 in 2007) | | 283,129 | | 363,755 |
| Materials and supplies | | 63,625 | | 63,538 |
| Prepaid expenses | _ | 28,048 | | 4,900 |
| Total Current Assets | _ | 2,181,316 | | 2,361,693 |
| Other investments | | 352,501 | | 351,067 |
| Property, Plant, and Equipment: | | | | |
| In-service | | 12,475,685 | | 11,180,524 |
| Under construction | _ | 2,013,665 | - | 367,366 |
| | | 14,489,350 | | 11 547 900 |
| Less accumulated depreciation | | , , | | 11,547,890 5,971,996 |
| Less accumulated depreciation | - | 6,642,614 | • | 3,971,990 |
| Property, Plant, and Equipment, net | _ | 7,846,736 | - | 5,575,894 |
| | \$ = | 10,380,553 | \$_ | 8,288,654 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Current portion of long-term debt | \$ | 282,221 | \$ | 304,936 |
| Accounts payable | | 68,662 | | 129,539 |
| Advance billing and customer deposits | | 16,076 | | 27,663 |
| Accrued expenses | | 388,253 | | 192,833 |
| Total Current Liabilities | _ | 755,212 | - | 654,971 |
| Long-Term Debt | _ | 5,945,186 | - | 3,738,976 |
| Stockholders' Equity: | | | | |
| Common stock, \$10 par value, 2,703 shares authorized and | | | | |
| 610 shares issued and outstanding | | 6,100 | | 6,100 |
| Paid-in capital | | 3,290 | | 3,290 |
| Retained earnings | _ | 3,670,765 | - | 3,885,317 |
| Total Stockholders' Equity | _ | 3,680,155 | _ | 3,894,707 |
| | \$_ | 10,380,553 | \$_ | 8,288,654 |

Statements of Income

| | | 2008 | | 2007 |
|--|-----|-----------|--------|-----------|
| Operating Revenues: | _ | | | |
| Local network | \$ | 178,843 | \$ | 186,274 |
| Interstate access | | 1,919,946 | | 1,736,981 |
| Intrastate access | | 470,949 | | 405,697 |
| Miscellaneous | _ | 5,366 | _ | 3,772 |
| Total Operating Revenues | _ | 2,575,104 | _ | 2,332,724 |
| Operating Expenses: | | | | |
| Plant specific operations | | 407,169 | | 483,618 |
| Plant nonspecific operations | | 180,703 | | 299,760 |
| Customer | | 67,635 | | 53,034 |
| Corporate | | 874,999 | | 586,597 |
| Depreciation and amortization | | 675,903 | | 597,798 |
| Other operating taxes | | 63,359 | | 46,986 |
| Nonregulated, net | _ | 135,554 | _ | 71,649 |
| Total Operating Expenses | _ | 2,405,322 | - | 2,139,442 |
| Operating Income | | 169,782 | | 193,282 |
| Other Income (Expense): | | | | |
| Other Income (Expense) | | (93,827) | | 97,410 |
| Allowance for funds used during construction | _ | 39,674 | _ | 15,248 |
| Total Other Income (Expense) | | (54,153) | party. | 112,658 |
| Income Available for Fixed Charges | | 115,629 | | 305,940 |
| Fixed Charges - Interest on Long-Term Debt | _ | 189,695 | | 91,589 |
| Net Income (Loss) | \$_ | (74,066) | \$_ | 214,351 |

Statements of Changes in Stockholders' Equity

| | Capi | tal (| Stock | | | | Accumulated Other | | |
|-------------------------------|--------|-------|--------|-------------|----|-----------|----------------------|----|-----------|
| | Shares | | | Paid-in | | Retained | Comprehensive | | |
| | Issued | _ | Amount | Capital | | Earnings | Income | _ | Total |
| Balance, December 31, 2006 | 610 | \$ | 6,100 | \$ 3,290 | \$ | 3,810,506 | \$ (10,605) | \$ | 3,809,291 |
| Change in unrealized loss on | | | | | | | | | |
| available for sale securities | - | | - | - | | - | 26,100 | | 26,100 |
| Reclassification adjustment | - | | - | - | | | (15,495) | | (15,495) |
| Distributions | - | | _ | - | | (139,540) | - | | (139,540) |
| Net income | | _ | 100 | | | 214,351 | <u></u> | _ | 214,351 |
| Balance, December 31, 2007 | 610 | | 6,100 | 3,290 | | 3,885,317 | - | | 3,894,707 |
| Distributions | ~ | | - | - | | (140,486) | - | | (140,486) |
| Net loss | | _ | | - | - | (74,066) | | - | (74,066) |
| Balance, December 31, 2008 | 610 | \$_ | 6,100 | \$ 3,290 | | 3,670,765 | \$ | \$ | 3,680,155 |

Statements of Cash Flows

| | _ | 2008 | _ | 2007 |
|---|------|-------------|----|-------------|
| Cash Flows from Operating Activities: | | | | |
| Net income (loss) | \$ | (74,066) | \$ | 214,351 |
| Adjustments to reconcile net income (loss) to net cash | | | | |
| provided by operating activities: | | | | |
| Depreciation and amortization | | 675,903 | | 597,798 |
| Patronage capital credits, noncash | | - | | (16,668) |
| Realized (gain) loss on sale of marketable securities | | - | | (15,495) |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | | 80,626 | | 28,254 |
| Materials and supplies | | (87) | | (7,111) |
| Prepaid expenses | | (23,148) | | 1,792 |
| Accounts payable | | (60,877) | | (150,556) |
| Advance billing and customer deposits | | (11,587) | | (9,495) |
| Accrued expenses | | 195,420 | | (5,299) |
| Net Cash Provided by Operating Activities | | 782,184 | | 637,571 |
| Cash Flows from Investing Activities: | | | | |
| Capital expenditures | | (2,946,745) | | (2,733,712) |
| Purchase of other investments | | _ | | (1,191,482) |
| Proceeds from sale of marketable securities and investments | | 38,566 | - | 1,441,497 |
| Net Cash Used by Investing Activities | Med. | (2,908,179) | | (2,483,697) |
| Cash Flows from Financing Activities: | | | | |
| Proceeds from long-term debt | | 2,413,061 | | 3,380,129 |
| Payments on long-term debt | | (229,566) | | (1,118,880) |
| Equity distributions | _ | (140,486) | | (139,540) |
| Net Cash Provided by Financing Activities | _ | 2,043,009 | - | 2,121,709 |
| Net Increase (Decrease) in Cash and Cash Equivalents | | (82,986) | | 275,583 |
| Cash and Cash Equivalents, beginning | _ | 1,889,500 | | 1,613,917 |
| Cash and Cash Equivalents, ending | \$_ | 1,806,514 | \$ | 1,889,500 |
| Cash Paid During the Year for Interest, net of amount capitalized | \$_ | 150,021 | \$ | 76,341 |

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Southern Montana Telephone Company (the Company) is a local exchange carrier (LEC) providing local telephone service, Internet access, and long-distance telecommunications services. The Company serves commercial and residential customers in the southwestern Montana exchanges of Divide, Grant, Jackson, Wisdom, and Wise River.

Regulation

The Company is subject to limited regulation by the Public Utility Commission of Montana (PUC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission (FCC), and adopted by the PUC. Regulatory actions currently pending, as well as future regulations, could have a significant impact on the Company's operations and financial condition.

Cash and Cash Equivalents

The Company considers cash investments with an original maturity of 3 months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. Section 136 of the Emergency Economic Stabilization Act of 2008 temporarily increased FDIC deposit insurance limits from \$100,000 to \$250,000 until December 31, 2009. Further, the Company's bank participates in the FDIC's Temporary Liquidity Guarantee Program, whereby all non-interest bearing accounts are fully insured. The Company also has cash equivalents in money market funds through brokerage accounts that are fully insured through the U.S Treasury's Temporary Guarantee Program for Money Market Funds. As such, there are no uninsured balances at December 31, 2008.

Accounts Receivable

The Company extends credit to its customers. Receivables are written off when the Company determines an account is uncollectible. Past due status is determined based on how recently the payment has been received. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for doubtful accounts is established.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Income Taxes

The Company is designated as an S corporation under the Internal Revenue Code. As an S corporation, earnings and losses are included in the income tax returns of the stockholders and taxed at the stockholder level. Accordingly, the Company does not incur additional income tax obligations, and financial statements do not include a provision for income taxes.

Materials and Supplies

Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method.

Property, Plant, and Equipment

Telecommunications plant in service and under construction is stated at cost, including estimated overhead expense. Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 4.2% to 33.3%. Costs of plant retired are eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charged to depreciation.

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Property, Plant, and Equipment, continued

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2008, total interest incurred was \$189,695 (\$91,589 in 2007), \$39,674 of which was capitalized in 2008 (\$15,248 in 2007).

Nonregulated Services

The Company accounts for its nonregulated activities as follows:

Nonregulated activities involving the joint use of regulated assets are accounted for within the prescribed regulated system of accounts for telephone company operations. These activities include directory services, long distance services, and other income items incidental to the provision of regulated telephone services.

Nonregulated activities not involving the joint use of regulated assets are accounted for separately from regulated activities. Operating revenues and the related expenses are separately presented as nonregulated revenues and expenses. These activities include Internet and payphone services.

Comprehensive Income

The Company follows SFAS Statement No. 130, Reporting Comprehensive Income. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

Network Access Revenues

Network access revenue for intralata and interlata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company follows an access tariff filed with the PUC and FCC for these charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA).

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

In addition to recoveries from NECA, the Company also receives revenues from the Universal Service High Cost Loop Fund administered by the Universal Service Administration Company (USAC). Amounts received from USAC are the result of having costs in excess of the national average as determined by the FCC and are included in network access revenues in the accompanying financial statements. In 2008, the Company received \$442,872 from the USAC High Cost Loop Fund (\$284,658 in 2007).

The ability of NECA and USAC to provide these revenues to the Company and similar organizations is dependent upon regulatory and legislative rules which provide for the continuance of rate of return regulation and universal service support. Any regulatory or legislative change, which reduces the rate of return or the universal service support, may have a material impact on the Company.

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 2 - Property, Plant, and Equipment

Listed below are the major classes of property, plant, and equipment in service:

| | <u>2008</u> | <u>2007</u> |
|---------------------------|----------------------|----------------------|
| Telecommunications: | | |
| Land and support | \$ 1,522,290 | \$ 1,498,135 |
| Central office | 3,114,087 | 2,768,925 |
| Cable and wire facilities | 7,839,308 | <u>6,913,464</u> |
| Total Telecommunications: | \$ <u>12,475,685</u> | \$ <u>11,180,524</u> |

Note 3 - Investments in Debt and Marketable Equity Securities

SFAS Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires classifying investments in marketable securities into one or more of three categories: held to maturity, available for sale, or trading, based upon the Company's ability and intent to hold the investment to maturity.

At December 31, 2007, the Company had \$40,000 of debt securities categorized as held to maturity and reported at cost, which approximated fair value. In 2008, the Company had proceeds from the sale of the debt securities of \$40,000.

Note 4 - Investments in Nonaffiliates

Investments in nonaffiliates consist of the following assets at December 31:

| | <u>2008</u> | <u>2007</u> |
|--------------------|-------------------|-------------------|
| Vision Net, Inc. | \$ 279,861 | \$ 279,861 |
| Other investments | 32,501 | 30,859 |
| RTFC | 2,802 | 3,010 |
| Artwork | 31,547 | 31,547 |
| Other Office Décor | 5,790 | 5,790 |
| | \$ <u>352,501</u> | \$ <u>351,067</u> |

Vision Net, Inc. provides advanced voice, data, and video services and is owned by Montana's independent telephone companies allowing them to interconnect a digital fiber network serving urban and rural communities throughout the state. The investment is maintained on the cost method of accounting.

Note 5 - Long-Term Debt

Long-term debt consists of the following:

| | 2008 | 2007 |
|--|---------------------|---------------------|
| 2.00% notes payable to the Rural Utilities Service, payable in monthly installments of \$42,406, principal and interest, collateralized by substantially all | | |
| real and personal property, due 2016 through 2023. | \$ 1,190,468 | \$ 1,338,732 |
| 4.634 to 4.88% mortgage notes payable to the Rural Utilities Service, payable in monthly installments of \$9,899, principal and interest, collateralized by substantially all real and personal property, due in 2026. | 2.480.134 | 2,480,129 |
| 2.692-4.58% notes payable to Rural Utilities Service, interest only through June 2010, then payable in monthly installments of \$14,690, collateralized | 2,400,104 | 2,400,120 |
| by substantially all real and personal property, due in 2026. | <u>2,413,061</u> | |
| Carried forward | \$ <u>6,083,663</u> | \$ <u>3,818,861</u> |

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 5 - Long-Term Debt, continued

| | 2008 | 2007 |
|--|-----------------------------|-----------------------------|
| Brought forward | \$ 6,083,663 | \$ 3,818,861 |
| 7.50% note payable to Michelle Helming, a former stockholder and related party of the Company, payable in monthly installments of \$7,893.60, principal and interest, due in July of 2010. | 143,744 | 225,051 |
| principal and interest, and in early of 2010. | | |
| Less current portion | 6,227,407 <u>282,221</u> | 4,043,912 <u>304,936</u> |
| | \$ <u>5,945,186</u> | \$ <u>3,738,976</u> |

The terms of the debt agreements contain restrictions on the declaration or payment of cash dividends, redemption of capital stock, and the maintenance of a minimum times interest earned ratio. Management believes the Company to be in compliance with these covenants at December 31, 2008.

At December 31, 2008, the Company had \$6,341,810 in unadvanced authorized loan funds from the Rural Utilities Services (\$8,754,871 at December 31, 2007).

Future maturities of long-term debt are as follows:

| 2009 | \$ | 282,221 |
|------------|----|-----------|
| 2010 | | 335,397 |
| 2011 | | 373,565 |
| 2012 | | 386,547 |
| 2013 | | 400,045 |
| Thereafter | 4 | 4,449,632 |

Note 6 - Retirement Plans

The Company participates in a qualified multi-employer, non contributory, defined benefit plan (the Plan) administered by the Retirement and Security Program of the National Telecommunications Cooperative Association (NTCA), which covers all full-time eligible employees, and contributes 12% of each eligible employee's annual salary to the Plan. Pension costs include current service costs that are accrued and funded on a current basis. Total pension plan charges, including amounts charged to construction, were \$80,004 in 2008 (\$76,888 in 2007).

The Company also participates in a contributory, multi-employer, defined contribution plan administered by NTCA, which covers all full-time employees. Employees are required to contribute a minimum of 2% of their annual salary to participate in the plan. Employer contributions are 5% of eligible salaries paid. Employer contributions to the plan were \$24,217 in 2008 (\$27,757 in 2007).

Note 7 - Workers' Compensation

The Company is a member of the Montana Electric and Telephone Systems Self-Insured Workers' Compensation Pool (the Pool). The Pool covers potential liability for workers' compensation and occupational disease to employees and dependents of deceased employees of all members in the Pool. The Company is jointly and severally liable with the other members for the full amount of all known and unknown claims.

Notes to Financial Statements

Years Ended December 31, 2008 and 2007

Note 8 - Related Party Transactions

The Company leases its office building from Robert G. Helming, stockholder, officer, and director of the Company. The lease calls for monthly payments of \$2,200 through December 31, 2011. Subsequent to December 31, 2008 the Company entered into a new agreement with Robert Helming, which calls for monthly payments of \$3,100 effective April 2009.

Following is a summary of minimum rental payments under the lease for the years subsequent to December 31, 2008:

| 2009 | \$ 35,400 |
|------|-----------|
| 2010 | 37,200 |
| 2011 | 37,200 |
| 2012 | 37,200 |
| 2013 | 37,200 |

Total rental expense under the lease listed above was approximately \$26,400 for the years ended December 31, 2008 and 2007.

Note 9 - Commitments

The Company has executed several contracts for construction projects. The amounts unpaid against these commitments at December 31, 2008 were \$282,277 (\$360,660 at December 31, 2007).

Note 10 - Reclassifications

Certain accounts in the 2007 financial statements have been reclassified to conform to the presentation in the 2008 financial statements. Such reclassifications have no effect on net income.